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State
water

Annual Report



Delivering the right amount of water to the right place at the right time

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20 October 2008

The Hon Eric Rozendaal
NSW Treasurer
The Hon Joseph Tripodi
Minister for Finance
Parliament House
Macquarie Street
Sydney NSW 2000

Dear Ministers

We present State Water Corporation's 2007-08 Annual Report, which outlines the performance of the Corporation during the past financial year.

This report has been prepared for presentation to the New South Wales Parliament, in accordance with the *Annual Reports (Statutory Bodies) Act 1984* and the *State Owned Corporations Act 1989*. It includes financial statements prepared in accordance with the *Public Finance and Audit Act 1983* and a report on State Water's compliance with the *Freedom of Information Act 1989*.

The Independent Audit Report for the 2007-08 accounts was signed by the Auditor-General's Office on 20 October 2008, allowing this Annual Report to be published.

Yours sincerely

AG (Tony) Wright
Chairman

George Warne
Chief Executive Officer

Front Cover: State Water regulated water user
Robert McCutcheon from 'Mullah' near Gin Gin with
Operations Manager, Sri Sritharan and Customer Service
Officer, Bernie Ward.

100%
compliance in
Environment
Management
Plan review

100%
of water allocation
delivered

61% decrease in
complaints via the 1800
billing hotline

65%
reduction in
lost days due to
injury

16%
decrease in fuel
consumption per
100km for
passenger vehicles

31%
increase in
water transfers

9%
increase in
Greenpower use

State water



Warren Customer Service Officer, Trevor Pearce.

Who we are

State Water delivers water to irrigation corporations, country town water supply authorities, farms, mines and electricity generators, by releasing flows from its dams into rivers to be accessed by water users.

It also provides water for stock and domestic users and is responsible for delivering environmental flows on regulated rivers.

State Water's core water delivery business provides services to about 6,200 customers who purchase water sourced from regulated rivers. These services include the operation of its assets (the dams and weirs) to deliver allocated water from storages, metering and commercial services.

The operation of these assets enables the delivery of about 5,500GL per year of bulk water to water users and the environment in 14 regulated river systems, along some 7,000km of river.

We also deliver about 9,000GL of water for the environment, which is becoming an increasingly large customer.

We manage and operate 20 dams and more than 280 weirs and regulators to deliver water for town water supplies, industry, irrigation, stock and domestic use and riparian and environmental flows.

We monitor water usage, manage customer accounts, bill and collect bulk water charges.

We have a workforce of about 300 people who are located throughout rural and regional NSW and work closely with water users, customers and key stakeholders to set asset management priorities, manage water accounts and improve water delivery efficiencies.

Water Resource Management

In NSW, the regulator and policy maker for water resource management is the Department of Water and Energy (DWE).

It develops natural resource policy frameworks, strategies and plans related to water management, water quality, salinity, soils, vegetation and environmental sustainability.

DWE is accountable for Water Sharing Plans (WSP), which define the rules for sharing the water resources of each regulated river valley, between consumptive users and the environment.

WSPs have been gazetted in eight regulated river valleys; Gwydir, Namoi, Macquarie-Cudgegong, Lachlan, Murrumbidgee, Murray-Lower Darling, Hunter and Paterson.

State Water operates in accordance with WSP and delivers water to customers and the environment.

Bulk Water Pricing

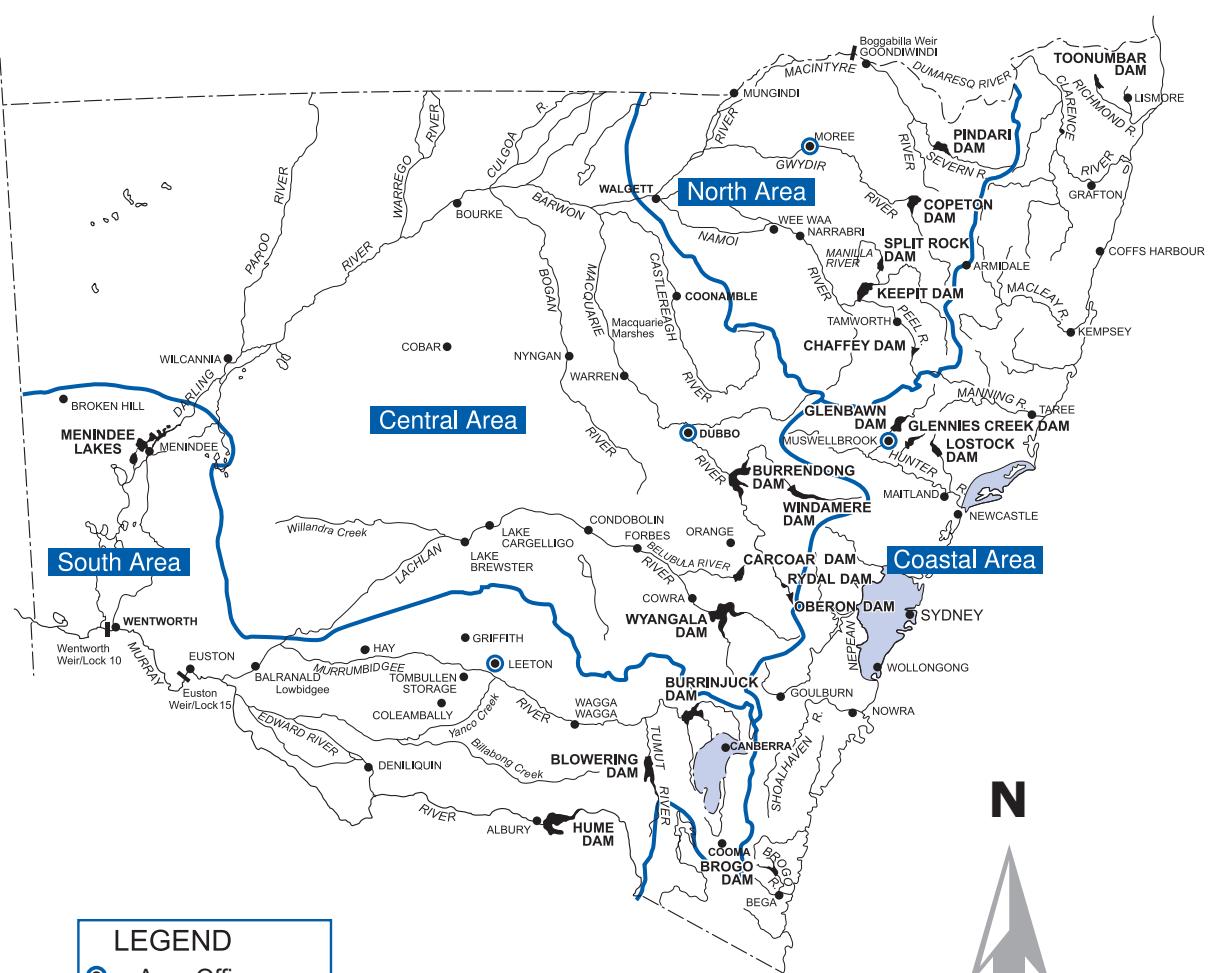
Water prices are set by the Independent Pricing and Regulatory Tribunal (IPART) and cover State Water's costs of delivering water and maintaining and operating infrastructure.

Bulk water prices are not based on the value of water, but on the recovery of costs incurred in delivering water.

Ministerial Responsibility

State Water has two voting shareholders, the Treasurer and Minister for Finance, with whom we enter into a Statement of Corporate Intent (SCI).

Our Operating Licence is issued by our Portfolio Minister, the Minister for Water.



LEGEND

- = Area Office
- = Town / City
- = Weir
- = Dam
- = Area not covered by State Water

0 40 80 120 160 200
kilometres



Lestock Dam.

Our strategic direction

Our vision

To be Australia's leading water business

Our purpose

To efficiently deliver water and services to customers, the community and the environment, to improve life and the economy

Our critical success factors

Excellent customer service

To continuously improve communications and service delivery ensuring high customer satisfaction

Best practice operations

To develop a suite of benchmarks against which there is regular measurement to drive improvements in operations, effective and efficient systems and establish a quality risk management system

Great people

To develop human resources programs and processes to ensure we have the right people with the right skills, knowledge and initiative to achieve high level commercial performance and high employee satisfaction

Profitable business growth

To attain commercial success and increased return on investment through profitable growth in non-traditional revenue sources and targeted capital expenditure

Sound financial performance

To operate as a financially effective and commercially efficient business, with good understanding of corporate objectives as well as effective, accurate and timely reporting

Supportive stakeholders

To work closely with State Water shareholders, customers, regulators and other stakeholders to achieve positive community outcomes within a commercial business

Enhanced environment

To develop a comprehensive understanding of the required environmental outcomes and improve the riverine environment to support bulk water delivery in accordance with ecologically sustainable development principles

Strategic asset investment

To develop and implement an investment evaluation program, which sits appropriately within a risk management framework and meets the requirements of the Operating Licence

Our values

We operate on the basis of our corporate values:

Accountability

We are responsible for our actions, behaviours and outcomes

Customer service

We meet our customers' needs and strive to exceed their expectations

Environment

We respect and enhance the environment

Expertise

We apply our skills, competency and experience to deliver effective and innovative solutions

Integrity and respect

We are honest, truthful and respectful in all that we do

People

We support, develop and motivate each other, professionally and personally

Safety

We put safety above time, cost, productivity and employment

Shareholder value

We deliver consistent returns and long-term growth



Our achievements

We successfully delivered 100% of water allocations over the past three years, including 1,125GL in 2007-08.

We successfully implemented the Paterson WSP.

We delivered the first environmental flows purchased through the RiverBank scheme, in the Macquarie valley.

Our environmental green score rating increased from 8.1 to 8.3, exceeding our two-year EMP target of 8.

Customer notifications indicated all but 0.005% of complying orders were delivered within one day of the scheduled delivery day.

The customer account enquiries hotline received more than 690 calls per month and registered only 11 formal complaints.

We processed 65% of the 1,932 intra-valley transfers in 2007-08 within four working days.

Our status as a preferred employer was reflected in an employee turnover rate of 7.9%, significantly lower than the Australian average of 13.6%

We issued more than 190 media releases on a wide range of issues affecting our customers.

State Water contacted 95% of customers within one working day of them placing a non-complying water order.

Our average sick leave ratio at 2.7% is significantly lower than the average of 5.7% for Australian utility organisations.

We worked with the NSW Department of Primary Industries (DPI) to successfully relocate 18,000 native fish into the Murray River from Lock 10 during refurbishment works.

We met daily flow targets 96% of the time in 2007-08, up from 91% in 2006-07.

We opened 741km of waterways for unimpeded passage by native fish.

We have 56 rural property leases valued at \$900,000, in place across 8 major dams.

The 38.05GWh of hydropower generated represents a saving in the production of 36,300t of greenhouse gases.

We received \$673,221 from hydro-electric power generation and site rentals in 2007-08.



State Water CEO George Warne and Board Chairman Tony Wright on location at Moree.



Message from the chairman and chief executive officer

The severe drought conditions continued throughout the year, with a slight improvement in the state's north overshadowed by the ongoing hardship facing our customers in the Lachlan, Murray and Murrumbidgee valleys. Financial performance was affected as a result of record low water allocations. However the overall financial position of the business remains solid.

This year State Water embarked on an ambitious restructure to provide more effective customer service and reduce its operating costs. We consulted widely with customers, employees and other stakeholders and appreciated their contribution to ensuring an optimum outcome.

The Commonwealth Government announced a comprehensive change in the national approach to water management in the Murray Darling Basin with the Water for the Future program. This coincided with public debate about the state of the basin environment and the value of water into the future.

Operations and services

Total water deliveries of 1,125GL in 2007-08 were about 20% of long-term average sales and the lowest since the development of major storages in NSW. This followed record low deliveries of 2,200GL in 2006-07.

The aggregate storage level in July 2007 was 16% of capacity. This rose to 20% by September and remained between 20% and 25% for the rest of the year until it rose to 26% in the last few weeks of June. The usual summer drawdown of storages was offset by summer storms in the Darling River catchments that ultimately took the Menindee Lakes scheme from 2% in December to 35% in March.

Water sharing plans remained suspended and special arrangements were put in place in the Murray, Lower Darling, Murrumbidgee, Lachlan, Macquarie and Hunter valleys.

Working with other agencies and communities State Water delivered all water required under environmental

rules of water sharing plans as well as the specific instructions issued when plans were suspended.

State Water's Customer Service Committees (CSCs) provided input into operations and valuable feedback that assisted in fine-tuning our services. During the year, 190 community members nominated to serve on the various CSCs, with 181 subsequently appointed.

State Water has decided to implement quarterly billing, in line with contemporary business practice, to be phased over a two-year period.

Major customers are scheduled for quarterly billing in 2008-09, while remaining customers will be billed half-yearly in 2008-09, with quarterly billing introduced for them in 2009-10.

Financial results

Overall income amounted to \$69.3 million, down by \$3.2 million on the previous year. Water delivery revenue was down \$1.6 million to \$31.4 million, due to continued lower deliveries and the move to an increased variable component in the tariff structure as required under the IPART pricing determination. The NSW Government contributed revenue of \$22.4 million, a reduction of \$5.0 million on 2006-07.

Other revenues amounting to \$15.3 million rose by \$3.3 million. This was driven by the increased level of contract work done for the Murray Darling Basin Commission and other third parties.

Income also increased from foreshore leases which were renewed on a more commercial footing and from the Department of Water and Energy for billing services provided by State Water. These increases were partially offset by a \$0.7 million reduction in interest received.

Total operating expenses increased by \$6.4 million to \$66.8 million, reflecting the increased level of third party contract work and redundancy expenses of \$3.5 million associated with implementation of the restructure.

Message from the chairman and chief executive officer

A loss was recorded before income tax and actuarial superannuation adjustments of \$0.019 million, compared to a profit of \$9.6 million the previous year. The benefit from income tax this year was \$2.2 million. However, superannuation actuarial losses of \$7.3 million resulted in a net loss of \$5.1 million in 2007-08.

State Water was issued with an unmodified financial result for 2007-08. State Water identified significant changes between the draft and final financial statements as a result of systemic issues. Significant remedial action has been taken and State Water is confident that the matters highlighted have been addressed.

New Corporate Plan

The Independent Pricing and Regulatory Tribunal (IPART) reviewed State Water's 2005-08 Operating Licence this year, resulting in terms for a new five-year licence. The new licence reflects changes on the regulatory framework, such as the *Water Act 2007 (Commonwealth)*, and Works Approvals, as well as other issues raised by State Water and stakeholders.

With these changes and the opportunities and challenges ahead in mind, we began to develop a new Corporate Plan to provide strategic direction for the corporation for the next four years and to add impetus to our evolving corporate culture and identity. Our strategic themes focus on increased efficiency, maximising the available water for delivery, addressing the need to expand our services and ensuring we have a safe, committed and skilled workforce.

Water for the Future

The Commonwealth and the Basin States continued to work on the transfer of responsibility for water management in the Murray Darling Basin to the Commonwealth as part of the Water for the Future Program this year. State Water contributed actively to NSW stakeholder consultation.

The \$13 billion plan for the Murray Darling Basin has significant implications for the irrigation industry and the management of water resources in rural and regional NSW.

The buyback component effectively establishes environment water-holders as significant and growing new customers of State Water.

The program provides an opportunity to replace current meters with State Water owned meters within the Murray Darling Basin. The Commonwealth has agreed in principle to provide \$90 million for the regulated NSW River component of this project, subject to due diligence. A further \$131 million is available for groundwater meters and deployment on unregulated rivers.

Becoming a more efficient utility business

State Water is implementing a reorganisation of the business in response to the need for cost structure reform, driven by IPART's 2006 Bulk Water Price. Planning and consultation with employees and stakeholders started this year to make the transition from a regional structure to a functionally-based organisational model.

We acknowledge that the restructure process has had an impact on our workforce and it is commendable that during a process of significant change our day-to-day operations and service provision have not been compromised.

State Water will retain a strong regional presence and strive to enhance customer service levels by investing in new technology to facilitate introduction of improved systems and arrangements. The new arrangements and technology improvements will streamline business processes and minimise the duplication of functions, resources and expertise. Customer interaction for water ordering, provision of timely information and financial transactions will be modernised using available technologies, including a telephone call-centre, to reflect current modern utility standards.

The environment

State Water delivered the first environmental flows purchased through the RiverBank scheme in the Macquarie valley.

Nearly 8,700ML of environmental water was delivered to the Macquarie Marshes, allowing water levels to be maintained in the northern nature reserve long enough for waterbird species to breed successfully.

Working with the Department of Environment and Climate Change to complete works on the North Marsh Bypass Channel in the marshes represented one of a number of operational highlights. Construction work also began on the \$13 million Lake Brewster Water Quality and Efficiency Project to save water, improve delivery and enhance the Lachlan River water quality and ecosystems.

State Water's revised Environment Management Plan came into effect after a 12-month review, in consultation with our regulators and stakeholders and in-line with the Operating Licence.

Dam Safety Upgrade Program

To achieve the most cost effective overall risk reduction at key sites as soon as possible, State Water has adopted a staged progression towards full NSW Dams Safety Committee (DSC) compliance. Phase one of the upgrade program will address the seven dams with the highest priority in our dam portfolio: Blowering, Burrendong, Chaffey, Copeton, Keepit, Split Rock and Wyangala dams.

The upgrade program for these dams was approved by the DSC in February and all seven projects have begun detailed investigations. The phase one projects which are most likely to first reach the construction stage are the upgrades at Blowering and Keepit dams.

State Water's people

Special thanks to State Water employees for their spirit and commitment to the continuing improvement of the service, asset management and commercial success of the business through a most challenging year. Despite this background of change, significant improvement was recorded in safety performance. At June 2008, only 3.2% of injuries resulted in time off – below the 2007-08 target of 3.3% and nearing the 2012 target of 3.1%.

The appointment of a new Chief Executive Officer (CEO) in December brought certainty and renewed energy to the organisation. Since then, a key focus for the CEO has been on working with NSW departmental stakeholders to produce the NSW Government's Sustaining the Basin submission to the national Water for the Future project.

The outstanding contribution of Chief Operating Officer, Geoff Borneman as Acting CEO for 12 months must also be acknowledged. He led the development

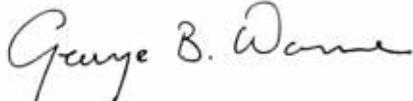

AG (Tony) Wright
Chairman

of the restructure of the operations area and developed the corporation's stand-alone commercial systems through much of 2007-08.

Our sincere gratitude is also extended to the Board members for their continued guidance and support. We farewelled a founding non-executive Director, Kathryn Ridge this year. Kathy made a significant contribution to State Water, particularly in her work in the Audit and Compliance sub-committee, and in chairing the Water Efficiency sub-committee. She also guided preparation of the initial and revised Environment Management Plan.

New, highly qualified Directors joined the Board during the year: Col Gellatly and Catherine Bolger took up their posts early in the year, while Anne Thompson joined in February 2008.

We also acknowledge and greatly appreciate the continued support of our Shareholding Ministers and Portfolio Minister, and express our optimism for the future of State Water Corporation.


George Warne
Chief Executive Officer





State Water board of directors



A G (Tony) Wright Dip Tech, MBA

Chairman since 1 July 2004

External Directorships

- Joint Managing Director, Wright Corporate Strategy Pty Ltd
- Chairman, BioTrack Australia Pty Ltd
- Deputy Chairman, NSW EPA Board
- Partner, Corymbia Creek Angus
- Chairman, NSW Reference Group on Extended Producer Responsibility
- Member, National Advisory Council for Environment Business Australia
- Member, Barton Group

Tony is a Managing Director of a corporate strategy and public policy advisory firm, specialising in resource and infrastructure management. His career focus has been running utilities and developing infrastructure covering water, waste and transport industries.

Tony has played a significant role in developing the Australian environment management industry through leadership positions in the industry association, Environment Business Australia. Much of Tony's recent work has been in guiding reform of solid waste management. He has chaired three public inquiries and helped shape the strategy and legislation for sustainable waste management at state and national levels.

Michael Bennett BAgEcos (UNE)

Director since 1 July 2004

External Directorships

- Director, Bennett Nominees Pty Ltd
- Director, Killowen, Pty Ltd
- Director, Collyburl Pty Ltd
- Director, NSW Irrigators' Council
- Director, Dataspan Pty Ltd
- Executive Member, Macquarie River Food and Fibre
- Chair, Macquarie-Cudgegong State Water CSC

Michael operates a 2,700ha property that produces cereals, sheep, cattle and cotton at Narromine, NSW. He has been actively involved in consultation with water users and governments over natural resource management issues at regional, state and Murray-Darling Basin Commission (MDBC) level.

In addition, Michael has been involved with numerous advisory committees and boards developing NSW water policy since the mid-1980s.



State Water Corporation Board on a recent visit to Moree: (Back) Col Gellatly, Catherine Bolger, Tony Wright, George Warne. (Front) Anne Thompson, Don Marples, Kathleen Bowmer and Michael Bennett.



[Catherine Bolger BEc, MLLR](#)

Director since 1 August 2007

External Directorships

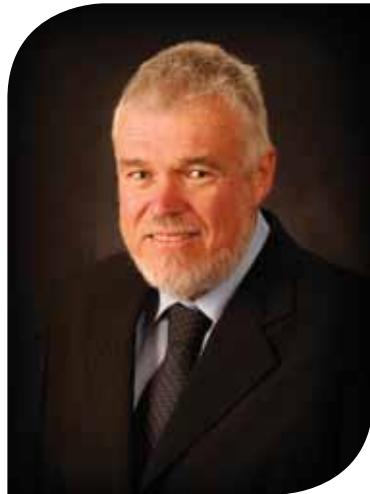
- Director, Powercoal Employees Entitlements Company Pty Ltd

Catherine is a Director of the Association of Professional Engineers, Scientists, and Managers, Australia.

In her senior role in the union, Catherine has helped to shape a strong vibrant voice for the interests of professional employees.

Her primary areas of expertise are industrial relations and occupational health and safety matters, as well as management.

Catherine also has a special interest in corporate and regulatory compliance, developed during her recent time as a director of a large industry superannuation fund.



[Geoff Borneman BEng](#)

**A/CEO and Director from
16 December 2006 to 5 December 2007**

As acting CEO, Geoff was instrumental in the development of critical business functions to achieve compliance with regulatory and licence requirements.

He successfully introduced a Cost Structure Reform Program to ensure the business met efficient operating costs determined by IPART in 2006.

Geoff is now the Chief Operating Officer for State Water.



Kathleen Bowmer BSc(Hons), PhD(Nott), FAICD

Director since 1 October 2004

Kath has worked in irrigation research and aquatic ecology with CSIRO for most of her career.

Honours include the Eureka Prize for Environmental Science.

She was previously Deputy Chief of CSIRO Water Resources, Business Director of CSIRO Land and Water, Deputy Vice-Chancellor of Charles Sturt University, board member of several Co-operative Research Centres and Chair of the Murrumbidgee River Management Committee.

Kath currently holds the position of Professor of Water Policy at Charles Sturt University and is an Honorary Research Fellow with CSIRO Land and Water.



Col Gellatly AO BAgEcos(Hons), MComm(Hons), PhD

Director since 16 July 2007

External Directorships

- Director, Col Gellatly and Associates Pty Ltd
- Chair, Redfern Waterloo Authority
- Chair, Pillar Corporation
- Member of Council, University of New England

Col finished a distinguished career in the NSW Public Sector in May 2007. His final position was Director General of the Department of Premier and Cabinet. Col had been a CEO for 18 years including time as Director-General of Premiers Department, Director-General of the Department of Land and Water Conservation, and Director-General of the Department of Industrial Relations, Employment, Training and Further Education.

Col is involved in a variety of roles in both the public and private sectors as a consultant, advisor and board member. He is currently Chair of the Redfern Waterloo Authority and Chair of Pillar Corporation (superannuation administration), while also a member of the Council of the University of New England and a member of the UNE Foundation. He recently chaired the NSW Government's Ethanol Taskforce and the NSW Government's Rural and Regional Taskforce.



Kathryn Ridge LLB(Hons1), BSc

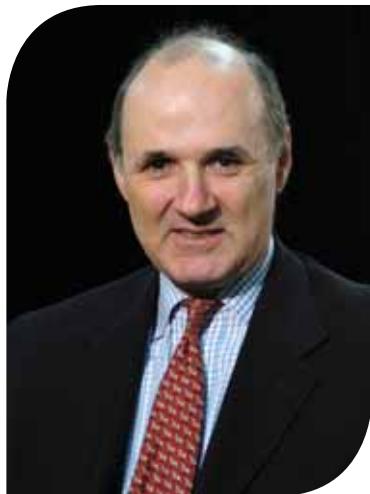
Director from 1 July 2004 - 30 September 2007

External Directorships

- Chair, Water Efficiency and Innovation Committee
- Member, Audit and Compliance Committee
- Member, IPART Committee
- Member, New Business Development Committee

Kathryn is the Solicitor Director of Ridge and Associates Pty Ltd. Prior to working as a solicitor she was the tipstaff to the Chief Judge of the Land and Environment Court, the Hon Mahla Pearlman AO.

Kathryn is co-author of the Biodiversity and Conservation Chapter of the Butterworths Local Government Planning and Environment Service. Kathryn was the Executive Officer of the Nature Conservation Council of NSW (1999-2003) She has extensive experience in natural resource management policy and legislation.



Don Marples BCom, MCom, FFin, GAICD

Director since 24 April 2006

External Directorships

- Director Fortius Funds Management Pty Ltd
- Director MPC Funding Ltd

Don is a senior management professional with 22 years experience in strategic leadership in banking, merchant banking and major corporations, with particular emphasis on property and infrastructure.

He has led, grown and repositioned value added financial and investment businesses in a high performance environment.

Don is the Joint Managing Director of Fortius Funds Management a specialist institutional property funds management group.

Previously, Don was the General Manager and Global Head of Project and Infrastructure with the Commonwealth Bank and has held senior positions with Lend Lease Corporation Ltd and ANZ Banking Group.



Anne Thompson BBus, LLB, GradDip Leg Prac

Director since 15 February 2008

Anne is a solicitor with Boyd and Longhurst Solicitors in Orange.

Previously, she was a union official with the Australian Workers' Union as Central West Regional Organiser and she also held the position of National Vice-President.

Anne has completed a Bachelor of Business degree, a Bachelor of Laws degree and a Graduate Diploma of Legal Practice.

She has been admitted as a solicitor in both the Supreme Court of NSW and the High Court of Australia.



George Warne B Build, MAICD

Chief Executive Officer

Director since 6 December 2007

George Warne was appointed CEO of State Water Corporation in 2007.

Prior to his appointment, George spent 15 years as General Manager and CEO of Murray Irrigation Limited.

As head of Australia's largest irrigation corporation (and State Water's largest customer) he developed a strong reputation in the industry and faced many of the same issues State Water has addressed since corporatisation in 2004.

George's introduction to State Water has involved trips to many of the organisation's 42 offices and discussions with nearly all of the organisation's 350 employees as State Water puts in place plans for a new, more streamlined, structure with a strong focus on customer service.

Our management team

The following employees made up the Management Team until April 2008.

Bob Barber BE(Hons), MEngSc

Manager Technical Services

Responsible for the project management of major capital works, coordination of the dam safety upgrade program to meet NSW Government compliance requirements, coordination of Environment Management Plan, approval responsibilities regarding environmental and heritage requirements.

Scott Barber BEng, MAppSc, PGradCertMangt, CPEng, MAICD

A/Customer Service Manager, North Area

Responsible for leading the North Area of State Water in bulk water delivery, customer service, strategic asset management and commercial business functions. Area of operations includes the Border Rivers, Gwydir, Namoi and Peel valleys.

Ross Barrie BE(Hons), MEngSc, MBA

Manager Strategic Asset Services

Responsible for the strategic management and planning of the total asset portfolio, principal advisor on asset management policy, regulatory and legislative requirements, and for the provision of specialised technical services, including asset performance surveillance monitoring, survey services, dam safety surveillance audit, dam safety emergency planning and civil/mechanical/electrical audits.

Lindsay Beck Dip Civil Eng

Customer Service Manager, South Area

Responsible for the operation, management and leadership of the State Water South Area, including water delivery and strategic asset management. Area of operations includes the Murrumbidgee and Murray-Lower Darling valleys.

Dan Berry BEng Manager Information and Operations

Responsible for performance of State Water's water delivery operations, information technology network, asset management strategy and policy and records and intellectual property management.

Geoff Borneman BEng A/Chief Executive Officer (from December 2006 - December 2007), Chief Operating Officer

Responsible for leading and strategic management of employees, customer and stakeholder relationship management. As an Executive Director on the Board, responsible for corporate governance, direction and review.

The Chief Operating Officer reports directly to the Board and the CEO. His responsibilities include the provision of strategic and operational leadership to State Water, and the oversight of all operations for State Water including Strategic Asset Management, Water Delivery, Customer Operations, Maintenance and Services, Major Projects and Operations Systems.

Marysia Derewlany BA(Hons), MTCP, MComm

Manager Strategic Policy and Compliance and Company Secretary

Responsible for managing the Board processes, strategic policy and regulatory compliance, legal services and business risk management and internal audit.

Greg Hillis BE(Hons)

Customer Service Manager, Coastal Area

Responsible for the commercial and operational performance of State Water's operations and asset management in the Coastal Area. This covers the area along the coast from Queensland to the Victorian border and the Hunter valley.

Jane Redden BBus (Accounting) MCPA

General Manager Finance

Responsible for the provision of strategic financial leadership to direct, control and administer the financial activities of the organisation. This includes offering strategic direction to the organisation in the development and implementation of financial management strategies, policies, systems and processes.

Sri Sritharan BSc(Hons) Civil Eng

A/Customer Service Manager, Central Area

Responsible for the commercial and operational performance of State Water's operations and asset management in the Central Area. This includes the Macquarie, Cudgegong and Lachlan valleys and Fish River Water Supply.

George Warne B Build, MAICD

Chief Executive Officer (from December 2007)

Responsible for leading and strategic management of employees, customer and stakeholder relationships. As an Executive Director on the Board, the CEO is responsible for corporate governance, direction and review.

Dennis Zandona BEc JP

Manager Corporate Services

Responsible for strategic direction and management of the Corporate Finance and Accounts Group, including the Chief Finance Officer, Corporate Shared Services, Organisation Development, and Corporate Policy and Communication. Areas of accountability include billing, accounts payable/receivable, human resources, industrial relations, payroll, fleet and facilities management, internal and external communications and corporate policy.

Our executive team

To focus on strategic decision making, the State Water Executive Team was established in April 2008 and includes:

- Chief Executive Officer
- Chief Operating Officer
- General Manager Finance
- Manager Corporate Services
- Manager Strategic Policy and Compliance

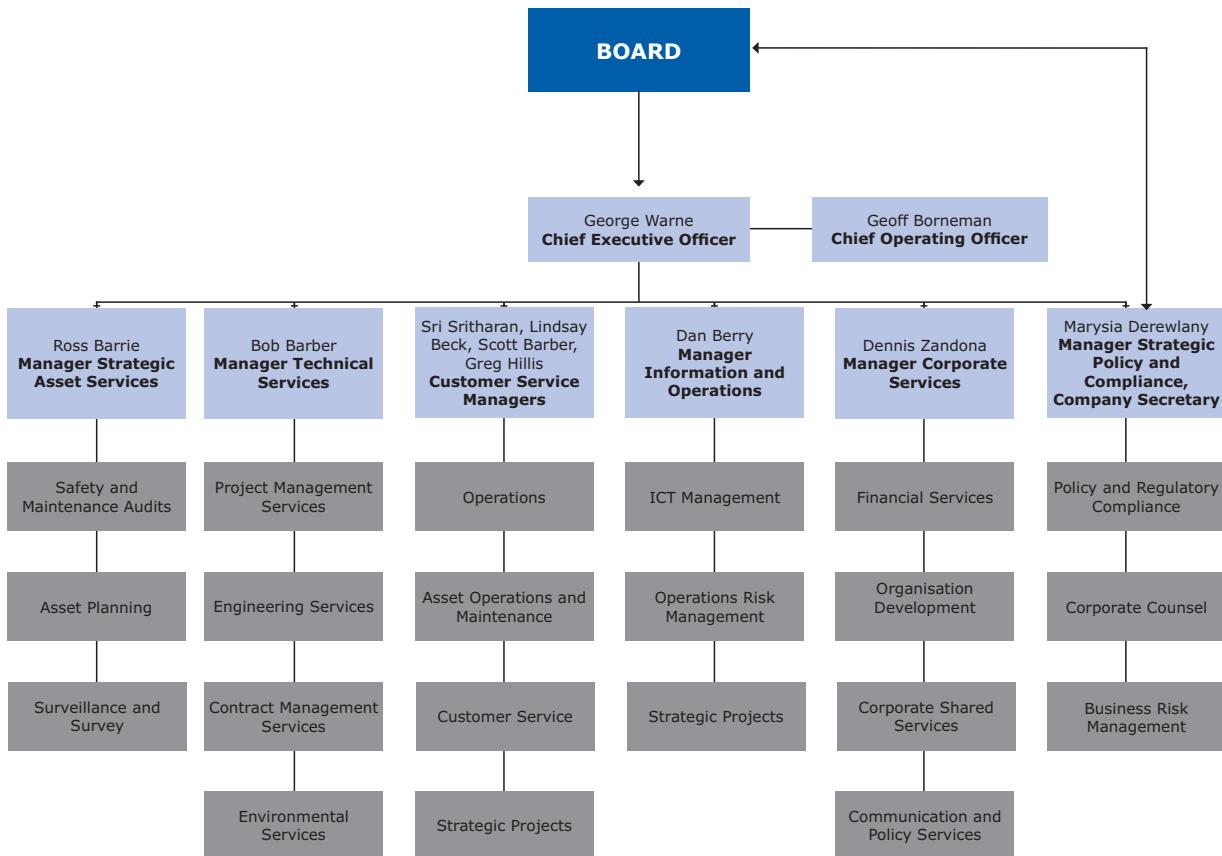
Meetings are held monthly and discuss issues of a strategic focus, including:

- developing strategic direction
- policy development
- Operating Licence compliance
- corporate risk management
- corporate planning targets
- initiation and review of Board papers
- corporate culture and values.

In keeping with new organisational arrangements, State Water is introducing an operations branch meeting from July 2008.

The business unit managers from this branch will join Executive Team meetings five to six times a year.

Our organisation chart 2007-08



Reorganisation of State Water

State Water is implementing a new organisational structure from July 2008, to reduce operating costs and increase efficiency, in line with the most recent water pricing determination by IPART.

While focusing on improving how State Water operates, the organisation is committed to maintaining a prominent regional presence and a strong customer service focus.

This change is about creating a more efficient organisation by reducing costs and reallocating resources.

The change will meet the requirements of the IPART pricing determination and provide a platform for future business development.

The current seven-day dam safety surveillance requirements are hampering efforts to operate more efficiently and are a key aspect of a broader reform process.

State Water is working closely with the NSW DSC to implement a surveillance regime that better

meets the organisation's needs, while continuing to ensure the effective operation of dams and the safety of downstream communities.

Consultation with State Water employees has been taking place since late 2007 and has included a series of face-to-face sessions throughout the state.

An aim of this process is to improve the organisation's knowledge sharing and succession planning by bringing teams of asset managers and flood operators together in regional locations.

This process will improve State Water's ability to cope with major floods and provide specialised maintenance services, but also involves a fundamental conflict between maintaining small rural offices and the need for greater efficiency.

All eight valley-based CSCs, which include representatives of water users and local government in their area, have been consulted about the process.

State Water will retain a strong regional presence along with maintaining and enhancing customer service levels and will invest in new technology to facilitate the introduction of the new arrangements.

The functionally based arrangements and technology improvements will create efficiencies by streamlining business processes and minimising the duplication of functions, resources and expertise.

The new arrangements will not only achieve the required 14% reduction in regulated operating expenditure but will also create a sustainable, efficient operating platform on which to build the business in the future.

A number of employees will be relocated and retrained to meet the requirements of the new organisation. Voluntary redundancies will be offered to meet efficiency targets.

Our organisation chart 2008-09

Subject to reorganisation in late 2008



2006-08 corporate plan

Critical Success Factor: Excellent Customer Service

Performance Measure

- Determine the needs and unsatisfied wants of customers
- Improve internal customer service
- Strengthen customer relationships

Critical Success Factor: Best Practice Operations

Performance Measure

- Conduct a Business Analysis of corporate systems
- Consolidate and streamline corporate policies and procedures
- Conduct benchmarking against Levels of Service, Standards and Best Practice
- Procurement and service delivery of major capital works program

Critical Success Factor: Supportive Stakeholders

Performance Measure

- Developing the Memoranda of Understanding (MoU) with government agencies
- Increase shareholder understanding of revenue volatility and State Water management of the issue

Critical Success Factor: Great People

Performance Measure

- Develop and implement the Workforce Plan to ensure business critical systems are resourced
- Implement employee survey recommendations
- Improve individual accountability and performance
- Develop and motivate employees through improved leadership, teamwork and internal communication

Critical Success Factor: Enhanced Environment

Performance Measure

- Environment Management Plan implemented, monitored and reported against

Critical Success Factor: Strategic Asset Investment

Performance Measure

- Develop a program of capital works
- Develop emergency response and Dam Safety Emergency Plans
- Develop and manage assets under the Total Asset Management Plan, consistent with NSW Government Asset Management Committee

Critical Success Factor: Profitable Business Growth

Performance Measure

- Securing Funding for Catchment Improvement Projects
- Reduce adverse impacts of revenue volatility on operating and investment strategies

Critical Success Factor: Sound Financial Performance

Performance Measure

- Audited Financial Statements



Windamere Dam.

2008-12 corporate plan

State Water's 2008-12 Corporate Plan outlines the organisation's corporate strategies for the next four years. It is not intended to include everything we do, but to represent our key areas of focus for 2008-12.

Our corporate values

State Water operates on the basis of our corporate values:

Accountability - we are responsible for our actions, behaviours and outcomes

Customer service - we meet our customers' needs and strive to exceed their expectations

Environment - we respect and enhance the environment

Expertise - we apply our skills, competency and experience to deliver effective and innovative solutions

Integrity and respect - we are honest, truthful and respectful in all that we do

People - we support, develop and motivate each other, professionally and personally

Safety - we put safety above time, cost, productivity and employment

Shareholder value - we deliver consistent returns and long-term growth.

Our vision

To be recognised by our customers, shareholders and other stakeholders as the best value for money water utility in Australia.

Our purpose

To efficiently deliver water and services for people, agriculture, industry and the environment, to be an integral service industry supporting sustainable growth in regional NSW.

2008-12 corporate plan strategies

Strategic theme: Protect, operate and maintain our water assets with increasing efficiency

Strategies

- Secure the integrity of our assets, to meet the standards required through efficient works and maintenance programs, reducing annual real costs
- Promote environmental responsibility in all our operations and seek recognition of this element of State Water's growing skill-set
- Realise the full value of our existing assets through proactive assessment and development and rationalisation of under-performing assets.



Strategic theme: Maximise the delivered water available from each megalitre flowing into the regulated river system

Strategies

- Confirm adequate funding from the Commonwealth Water for the Future fund and deliver technologies to improve methods of measurement, metering and remote sensing
- Continue to improve the efficiency of water delivery into and from our storages and rivers, recognising the impact of climate change.

Strategic theme: Provide water-related services that respond to the growing variety of customer needs - specifically recognising the value of water, the environment, and customer service

Strategies

- Provide premium services, where profitable, above those funded by IPART-approved maximum charging
- Recognise the environment as a key water user and develop value adding services to assist emerging environmental water managers
- Modernise interaction with our customers through the introduction of existing, proven, service-industry technologies
- Improve customer understanding of river operations.

Strategic theme: Improve business outcomes

Strategies

- Secure benefits available to State Water under the Water for the Future program
- Build on our extensive rural footprint to secure profitable business growth opportunities outside the IPART-regulated business
- Develop business systems that allow us to maintain productivity during times of change
- Meet the commercial and operational expectations of shareholders and regulators.

Strategic theme: Achieve our strategic objectives through a capable, committed, safe and skilled workforce

Strategies

- Meet the NSW Working Together Targets for OH&S by putting safety first
- Provide employees with the tools to effectively and efficiently deliver services
- Develop a culture that allows us to build a team of skilled and dedicated people consistent with a modern utility business.



Menindee Lakes spillway.

2007-08 operating licence performance

State Water delivers services under an Operating Licence granted by the NSW Government.

The Licence sets out conditions relating to the following matters:

- State Water's responsibilities
- Functions authorised by the Licence
- Customers and community engagement
- Complaints and dispute handling
- Asset management
- Water delivery
- The environment
- Performance indicators
- Pricing
- Licence audits by IPART.

The following table summarises State Water's performance relative to the requirements of the Operating Licence. Additional information on State Water's compliance with the Operating Licence in 2007-08 can be found in the annual Operating Licence report to IPART, which is published on State Water's website.

Issue	Requirement	Achievement
MoU	Use best endeavours to establish MoU with Department of Environment and Climate Change (DECC), DWE and DPI. Make MoU available to the public.	State Water continues to have in place MoUs with DECC, DWE and DPI. MoU available on State Water's website.
State Water functions authorised by the Licence	Exercise functions under the Licence consistently with Water Act, Water Management Act, the Licence and relevant water management plans.	No reported instances of non-compliance.
CCC	Establish and regularly consult with the CCC.	Meeting held: 27 September 2007. Further details on page 29.



Issue	Requirement	Achievement
Customer Service Charter	<p>Establish a Customer Service Charter in consultation with CSCs.</p> <p>Make charter available to the public and reviewed the charter in consultation with CSCs by 1 July 2007.</p>	<p>The charter has been established and is available on State Water's website.</p> <p>A new Customer Service Charter which was adopted and implemented on 1 July 2007, was posted to all customers with their water bills.</p>
Fish River Customer Council	Establish and regularly consult with Customer Council.	Regular meetings of the council have occurred.
Code of Practice and Procedure for Debt Management	Develop a code of practice and a procedure for debt management.	State Water continues to have in place a code of practice and procedure for debt management. The code is available on State Water's website.
Environment Management Plan (EMP)	Report to IPART by 1 September 2007 on performance against the EMP.	State Water achieved a 100% compliance rating with the EMP in the annual Operating Licence report to IPART.
Customer contact	Behave responsibly in accordance with the Code of Conduct.	<p>The Code of Conduct was revised in May 2008 to include references to bribery and corruption.</p> <p>No complaints were received during 2007-08 alleging breaches of the Code of Conduct on the part of State Water employees.</p>
Management Outcomes Plan	Report to IPART on performance against the State Water Management Outcomes Plan (SWMOP).	State Water successfully reported against all targets in the SWMOP which is included in the annual Operating Licence report to IPART.

Issue	Requirement	Achievement
Information and communication	<p>Establish and regularly consult with CSCs.</p> <p>Consult with communities on major projects.</p> <p>Provide a toll-free customer billing service.</p>	<p>Regular meetings of the CSCs have taken place in all valleys.</p> <ul style="list-style-type: none"> Local landholders were consulted to minimise impact from construction works associated with the Lake Brewster Water Efficiency Project. Water users along the Moomin and Mallowa Creek systems were surveyed and advised of upgrade works at the Gundore Regulator. Community consultation continues on all dam safety upgrade projects. <p>State Water has a customer account enquiries hotline (1800 353 091). The hotline received an average of 690 calls per month in 2007-08.</p>
Internal Complaints Handling Procedure	<p>Establish a procedure in consultation with IPART to determine complaint categories.</p> <p>Make procedure available to the public.</p>	<p>State Water finalised complaint categories with IPART and introduced a new complaints handling system on 1 September 2006.</p> <p>The complaints handling and resolution policy and procedures pamphlet, entitled "Customer Concerns", is on State Water's website.</p>
External Dispute Resolution Scheme	<p>Establish an external dispute resolution scheme which is consistent with requirements specified in the Operating Licence.</p> <p>Make a pamphlet regarding the scheme available to the public.</p>	<p>State Water has been a member of the Energy and Water Ombudsman NSW (EWON) since 1 January 2006.</p> <p>State Water has included information about EWON in a pamphlet on complaints handling and dispute resolutions on State Water's website.</p>
Pricing	Apply charges in accordance with IPART pricing determinations.	State Water has applied charges in accordance with the 2006 IPART determination.
Water Ordering and Delivery	<p>Timely water delivery within the limits of system response times.</p> <p>Proactive management for optimal water availability.</p>	<p>Customer notifications indicated only 0.005% of complying orders were delivered outside of one day of the scheduled day of delivery.</p> <p>State Water initiated a number of measures to increase operational efficiency in response to the ongoing drought:</p> <ul style="list-style-type: none"> Drought management plans, aimed at conserving water, were developed and implemented in the Lachlan and Macquarie-Cudgegong valleys. A range of measures was undertaken to minimise system losses and increase reliability, including minimising end of system losses, minimising the use of some storage to reduce evaporation and seepage losses and implementing demand management to maximise downstream inflows. Water delivery in the Gwydir River was improved through desilting work. Customers were consulted through CSCs to determine better ways to conduct water accounting in drought conditions without violating WSPs. Flood operation manuals were developed for all North Coast, South Coast and Hunter valley dams to maintain dam safety and mitigate downstream flooding impacts.

Case study

New operating licence issued

State Water was granted a new Operating Licence which has fine tuned the existing licence conditions to enhance service provision and meet customer requirements.

As a state-owned corporation, State Water manages the storage and delivery of 5,500GL of water to 69 communities, 6,200 customers annually across rural and regional NSW.

The Operating Licence period has been extended from three years to five and will take effect from 23 June 2008.

The new licence also requires that a point of contact be identified for customers in financial hardship and that community input is included when the organisation's Environment Management Plan is redrafted in 2010.

Other changes include recognising the new *Water Act 2007* and clearly establishing State Water's role in ensuring customer meters comply with government regulations.

State Water CEO George Warne, said the majority of additions to the Operating Licence conditions formalise practices already undertaken by State Water.

"For example State Water's system for consulting with the community and addressing complaints is already well established and more than satisfactory, but recent changes to the Australian standard require State Water to fine tune their process.

"From a community perspective one of the most significant new licence conditions is a requirement for comprehensive community consultation and input when reviewing and updating the organisation's Environmental Management Plan.

"In recognition of the need to balance customers' needs and the needs of the environment, the new licence will require the membership of each valley CSC to include representation of public interest in water for environmental purposes.

"In addition customers will now be provided with a specific contact point to help manage their account in the event of financial hardship and State Water will be reporting to me quarterly on the numbers of customers accessing payment assistance."

Importantly for customers, IPART will annually audit State Water's compliance with the Operating Licence to ensure high levels of service are maintained.





Lake Cargelligo Asset Officer Michael Rule explaining the water efficiencies to be gained from the Lake Brewster Water Efficiency Project.

Excellent Customer Service

Strengthen customer relationships

Customer satisfaction index

State Water surveys its customers every three years to determine their level of satisfaction.

One of the performance targets in the 2006-09 corporate plan is to maintain or improve the Customer Satisfaction Index (CSI).

The CSI, as determined in the 2006 customer survey was measured at 7.3 out of 10, a slight improvement on the 2002 result of 7.2.

A strategy was developed to address the issues raised in the survey.

Actions undertaken as part of that strategy in 2007-08 include:

- Developing local customer detail databases
- Using SMS text messages to announce available water determinations and supplementary water announcements
- Ensuring local contacts are included on all customer notices and communications
- Continuing communication with CSCs, updating the terms of reference and communication plans
- Improving customer bills
- Implementing a Christmas e-card.

State Water has also introduced a 1300 phone number to direct customer calls straight to their local office. That number is being promoted in all marketing material and on State Water vehicles and has reduced the cost of listings in the white pages.

In the coming year State Water will strengthen its focus on customer service with the implementation of a Customer Operations business unit.

This unit will bring together all the customer service roles. It will include

a customer call centre using the 1300 number, to handle water accounts, billing and other general enquiries.

In the coming year, consideration will be given to an appropriate customer relationship management database to overcome some of the issues due to the close linkages State Water has in using DWEs licensing database.

Work is also progressing on an internet water accounting system that will allow customers direct access to their water account information and to place water orders via the internet.

Water bills have also been streamlined this year, with joint State Water and DWE bills to be introduced in 2008-09.

Develop valley business planning

Valley business plans provide customers with an opportunity to have input into each valley's annual business planning.

The plans are mechanisms for customers to input into the development of objectives that allow State Water to realise the benefits of state-wide systems and processes, inter-valley resource sharing, economies of scale, as well as consistency.

Each valley has a business plan, these are living documents that are updated and refined to suit changing circumstances for each valley.



Customer service committees

Since their introduction in 1999, CSCs have been an effective forum for developing operational improvements, setting asset management priorities, communicating customer service changes and driving business efficiencies in each valley.

The current term of office ended on 30 June 2008. The Terms of Reference were reviewed in consultation with the CSCs in the lead up to the new four-year term of office.

Expressions of interest for the 2008-2012 term were called in April 2008. More than 190 nominations were received and of those, 181 members were elected.

In an effort to reduce paper consumption and increase environmental awareness, the new committee members received information packages on compact disc.

CSCs provide a forum for communication and consultation between State Water and its customers.

When developing projects, policies and priorities for State Water, committee representatives ensure the interests of all water users are considered.

CSC members and State Water exchange information so that a positive, constructive and efficient service provider-customer relationship is maintained. This relationship is based on collaborative identification of relevant issues.

State Water employees effectively communicate information to CSC members.

Border Rivers CSC

Four meetings held

- Endorsed valley business plan
- Provided feedback into cost structure reform
- Endorsed changes to the CSC Terms of Reference
- Endorsed the Block Release Strategy
- Endorsed the Water Information Exchange rollout (WIX)
- Endorsed the Border Rivers capital works plan
- Endorsed the Border Rivers Commission Reforms

- Provided feedback on State Water's new organisational arrangements.

Coastal CSC

Three meetings held

- Addressed operational requirements of the Hunter valley WSP
- Successfully lobbied for a 10% carry over for 2007-08 water
- Implemented sending customer notices by fax and SMS text messaging
- Provided feedback on State Water's new organisational arrangements
- Endorsed the customer service charter
- Endorsed the CSC Terms of Reference.

Fish river customer council

Seven meetings held

- Supported the development of an effluent reuse scheme for timber industries in Oberon
- Supported the development of the Clarence Colliery Mine water transfer scheme
- Endorsed stage one of a project to supply filtered water to the town of Lidsdale
- Continued to manage the drought by doing the following:
 - Commissioned and adopted a water allocation report by DWE
 - Adopted a review of the drought
 - Revised the drought management strategy
 - Revised the operating rules for the Scheme
 - Resolved not to proceed with groundwater investigations due to low yields expected
 - Commissioned a report on infrastructure contingency planning for drought management.

Gwydir CSC

Five meetings held

- Endorsed block release strategy
- Explored significance of double dipping factor
- Provided feedback into State Water's cost structure reform program
- Provided input into small flows roster
- Sought to increase supplementary water Available Water Determination
- Provided input into and carried out small trial of WIX
- Hosted State Water Corporation

- Board meeting and site visit
- Endorsed the Customer Service Charter
- Endorsed the CSC Terms of Reference
- Endorsed the Gwydir capital works program
- Provided feedback on State Water's new organisational arrangements
- Held CSC membership elections.

Lachlan CSC

Four meetings held

- Successfully managed drought conditions through revising the drought contingency plan
- Lake Brewster project approval process expedited and critical works started in January 2008
- Actively pursued issues including:
 - Conversion of licences from general security to high security
 - Embargo on issuing of new stock licences to enable trading
- Organised veranda chats to advise water users of drought situation
- Consulted State Water Board on cost structure reforms
- Provided advice to DWE's critical water panel for water allocations resulting in lifting suspension on part of the carryover allocations.

Macquarie-Cudgegong CSC

Four meetings held

- Approved a number of measures including application of penalties and water order debiting to minimise operational losses
- Reviewed the resource assessment and drought contingency plan resulting in a small allocation to general security users
- Developed a water delivery strategy under drought contingency plan with Bogan Shire Council and Cobar Water Board
- A water user group was formed in the Lower Macquarie valley and is represented on the CSC
- Consulted industries on water requirements with recommendations made to DWE to increase allocations to sustain some industries
- Contributed in DWE's critical water panel consultations for water allocations
- Supported the Environmental Flow Reference Group representation on CSC.

Murray-Lower Darling CSC

Three meetings held

- Promoted discussion on water resource management issues including critical water allocations
- Successfully requested a temporary reduction in minimum releases from Hume Dam from 600 to 400ML/day
- Promoted concerns to Ministers and DWE regarding current basic landholder right legislation
- Reviewed customer satisfaction survey report
- Provided feedback on drought contingency operations in the Lower Darling valley and Wakool system
- Requested the establishment of an additional hydrographic station in the Darling River at Karoola
- Requested groundwater water allocation reports be provided on a regular basis
- Considered advice from State Water regarding new organisational arrangements
- Inspected the refurbishment of Colligen Creek Offtake.

Murrumbidgee CSC

One meeting held

- Recommended the Minister for Water support an amendment of carryover to 50% for the Murrumbidgee valley for the 2008-09 water year
- Provided input on the review of State Water's debt management policy and processes
- Recommended to IPART that all interstate water purchases incur a usage charge as part of the transfer fee

- Requested accurate and informative financial reports, which will now be available as a result of implementation of the new financial system.

Namoi-Peel CSC

Four meetings held

- Endorsed valley business plan
- Endorsed block release strategy
- Provided feedback into State Water's cost structure reform program
- Provided support for State Water's trigger supplementary flows and to have audit performed by DWE for timeliness
- Endorsed the customer service charter
- Endorsed the CSC Terms of Reference
- Endorsed the Namoi and Peel capital works programs
- Provided feedback into State Water's new organisational arrangements
- Held CSC membership elections.

Community reference panels

State Water works with stakeholders on its major dam upgrade projects at Chaffey Dam and Keepit Dam through Community Reference Panels (CRPs). Two meetings were held for the Chaffey Dam Upgrade and one meeting for the Keepit Dam Upgrade.

Chaffey Dam upgrade CRP

State Water held two meetings on 29 October and 13 December 2007, with the Chaffey Dam Upgrade CRP to brief them on progress of the dam safety upgrade, the status of the augmentation proposal and the need for confirmation of funding.

Keepit Dam upgrade CRP

State Water held a meeting with the Keepit Dam Upgrade CRP on 13 December 2007 to discuss State Water's preferred option and the content of the Keepit Upgrade Environmental Assessment submission prior to public exhibition.

State Water also held follow up meetings and teleconferences.

Community consultative committee

The CCC met once on 27 September 2007.

The purpose of the committee is to consult on relevant issues with peak groups such as NSW Irrigators' Council, Nature Conservation Council, NSW Farmers' Association, Catchment Management Authorities, Aboriginal Land Councils and the NSW Local Government and Shires Association.

This helps State Water meet objectives of the Corporate Plan and the Operating Licence.

State Water Board Chairman, Tony Wright chairs the CCC.

Issues for consultation include cultural heritage and environmental management, funding and community collaboration opportunities, the IPART Bulk Water Pricing Determination and customer complaints handling.

State plan priority - S8

Increased customer satisfaction with government services

State Water has worked on improving services to its customers by focusing on water delivery and information provision.

Results from the 2006 State Water Customer Satisfaction Survey have been used to develop a customer service strategy.

Actions undertaken as part of that strategy in 2007-08 include:

- Developing local customer detail databases
- Using SMS text messaging to announce available water determinations and supplementary water
- Ensuring local contacts are included on all customer notices and communications
- Continuing communication with CSCs about updating Terms of Reference and communication plans for CSCs
- Improving customer bills
- Implementing a Christmas e-card.

Customer service charter

To ensure customers receive quality service, State Water has a Customer Service Charter outlining the standard of customer service that customers can expect and what State Water needs from them.

The charter was reviewed during 2006-07 in consultation with all of the Customer Service Committees and a new customer-friendly version was adopted in April 2007, effective from 1 July 2007. The charter can be found on State Water's website. It was posted to all customers with their water accounts in early 2007-08 and is available at all State Water offices.

The focus of the new charter is on the key areas of water ordering and delivery; customer contact; and information and communication. Under each section, there are key expectations and commitments, as well as an indication of what customers need to do to help State Water provide the level of service outlined.

Commitment	Achievements
Water ordering and delivery	
An accessible water ordering system	<p>Customers throughout the state can access multiple water ordering systems. These include fax, phone messaging, and over-the-counter systems.</p> <p>State Water is developing an internet water accounting system, a scaled-back version of WIX which is more tailored to State Water's and customers' immediate needs, including:</p> <ul style="list-style-type: none"> • water ordering • meter readings, and • customer access to water account balances.
Timely water delivery within the limits of system response times	<p>In the Lachlan and Macquarie-Cudgegong valleys, State Water contacted 95% of customers within one working day of a non-complying water order being placed.</p> <p>Customer notifications indicated that only 0.005% of complying orders were delivered outside of one day of the scheduled day of delivery.</p> <p>In the Lachlan and Macquarie valleys, State Water rescheduled 100% of the total number of water orders within one working day of the known water shortage or delivery delay.</p> <p>Daily flow targets were met 96% of the time in 2007-08, up from 91% in 2006-07.</p> <p>There were 1,932 intra-valley transfers in 2007-08. State Water processed 65% of these trades within four working days.</p>
We will inform you of any water delivery issues.	<p>State Water routinely contacts customers regarding any water delivery issues.</p> <p>In 2007-08, State Water issued more than 190 media releases on a wide range of issues affecting customers including:</p> <ul style="list-style-type: none"> • Off-allocation or supplementary flows in the Brogo River, Bega River, Peel River, Paterson River, Hunter River, Ironpot Creek • Water delivery issues in the Border and Gwydir valleys • Replenishment flows in the Gwydir valley • Water releases in the Darling River • Water allocations. <p>In the Lachlan and Macquarie-Cudgegong valleys State Water regularly issues customer notices regarding allocations, water delivery and other relevant issues.</p> <p>In the Murray-Lower Darling valley, there is a customer communication service to which customers can subscribe and by which all State Water, DWE and MDBC notices are issued.</p>
Assets that are maintained fit for service	No inoperable assets were noted during the year which compromised water delivery.

Commitment	Achievements
Proactive management for optimal water availability	<p>State Water initiated a number of measures to increase operational efficiency in response to the ongoing drought:</p> <ul style="list-style-type: none"> • In the Murray-Lower Darling and Murrumbidgee valleys, a range of measures have minimised system losses and increase reliability. These include: <ul style="list-style-type: none"> – minimising end-of-system losses – minimising use of some storage to reduce evaporating and seepage losses – temporarily disconnecting wetlands – lowering weir pools and reducing losses due to shorter periods of delivery. • Effluent creeks beds were left dry and customer orders were grouped in the Macquarie-Cudgegong valley to increase water efficiency. • The Belubula valley introduced different delivery arrangements, including a trial of group orders. • In the Lachlan valley, the Lake Brewster weir pool was reduced to very low levels and smaller structures in the lower Lachlan were used for micro re-regulation to conserve water. • State Water's Hunter valley further developed and implemented an end-of-system averaging protocol to meet environmental flow targets and save water. • Small operating valves were installed on four coastal dams (Lostock, Glennies Creek, Toonumbar and Brogo) to allow for small releases to maintain riparian and environmental flows. This reduced the minimum flows able to be released from the valves, increasing the efficiency of riparian and environmental water releases. • Self-regulation of access to uncontrolled flows was introduced in the Hunter Regulated River to improve timely advice to licence holders. • In the Coastal valley, State Water maintained a customer contact database including e-mails, faxes, SMS customer notice services to improve access to opportunity flows. • A partnership agreement was developed with a major electricity generator in the Hunter valley to optimise access to opportunity flows using a self regulation process. • State Water worked closely with customers and DECC to determine delivery dates for block releases to deliver small amounts of remaining allocation as well as environmental water in the Border, Gwydir and Namoi valleys, thereby reducing conveyance losses.
Customer contact	
Be courteous, helpful and communicate clearly	<p>Interaction with the public and other stakeholders in 2007-08 did not generate any complaints in relation to courtesy, helpfulness or clarity of communication.</p>
Behave responsibly in accordance with our Code of Conduct	<p>State Water's Code of Conduct has been in place since 2006. The code is principles based and aligned with State Water's values. State Water has a three-day induction program for new employees and the code is one of the topics covered in the induction program along with being included in the new starters' kit provided to each employee. In addition, the code is also available on the State Water intranet.</p> <p>In May 2008 the Code was revised to include specific references to bribery and corruption making explicit the need for every employee to be aware of the need to be wary of gifts and benefits from suppliers and to seek permission from supervisors before accepting any gift or benefit. It is also made clear that the acceptance of cash is never acceptable. The code also contains examples of token and non-token gifts or benefits.</p> <p>Further additions to the Code include definitions of ethics and conflicts of interest as well as some simple questions to help employees think through a process of ethical decision making.</p> <p>A duty to notify conflicts of interest has also been included to ensure transparency. Further clarification to the section on the private use by employees of State Water equipment has also been included.</p> <p>No complaints were received during 2007-08 alleging breaches of the Code of Conduct by employees.</p>

Commitment	Achievements
Listen and respond to customer requests, including access to your property, in an appropriate way	<p>In 2007-08, only one complaint was received (in March 2008) alleging inappropriate behaviour. A thorough internal investigation of the allegations found they were without substance and no further action was required.</p>
Make office hours and contact details accessible	<p>State Water's statewide office hours are 8.30am to 4.30pm, Monday to Friday. During 2007-08 mobile telephone numbers of the Customer Service Managers, Operations Manager and Customer Service Operators' were published on the State Water website. On weekends and public holidays, the Duty Operations Officer responds to any problem or urgent issue with regard to water delivery. From 1 July 2008, State Water has a new organisation structure, including a call centre for customer enquiries. No complaints were received from customers in relation to office hours and accessibility of State Water employees in 2007-08.</p>
<i>Information and communication</i>	
Regularly meet with Customer Service Committees (CSC) in every valley	<p>State Water met regularly with all CSCs. The CSCs convened on the following dates in 2007-08:</p> <ul style="list-style-type: none"> Border - 18 August, 21 November 2007, 20 February, 17 June 2008. Gwydir - 10 July, 20 October, 13 December 2007, 27 March, 16 June 2008. Namoi-Peel - 7 August, 23 October 2007, 14 February, 15 May 2008. Macquarie-Cudgegong - 12 October, 12 December 2007, 12 March, 11 June 2008. Lachlan - 13 August, 12 November 2007, 11 February 12 May 2008. Murrumbidgee - 21 December 2007. Murray-Lower Darling - 24 August, 7 December 2007, 28 April 2008. Coastal - 31 October 2007, 25 February, 24 June 2008.
Provide a toll-free customer billing information service	<p>State Water's customer account enquiries hotline (1800 353 091) is in operation. The hotline received an average of 690 calls per month in 2007-08.</p>
Provide a complaints handling system that you can access	<p>State Water's website provides information to encourage and assist in lodging complaints, including a readily downloadable concerns form from the website along with facsimile details for submitting the form. In addition, a 1300 toll free telephone number (1300 662 077) linked to the caller's nearest State Water regional office is actively promoted to customers via the website and printed material. Customer Service Officers are also situated at regional offices to enable issues to be addressed in person at a local level. Complainants not satisfied with the outcome of State Water's internal processes to address complaints are encouraged to raise the matter with the Energy and Water Ombudsman NSW (EWON).</p>
Survey customers every three years to measure their satisfaction with our services	<p>Regulated river customers were last surveyed in July and August 2006. The overall satisfaction rating improved from 7.2 out of 10 in 2002 to 7.3 in 2006. A copy of the results can be found on our website: http://www.statewater.com.au/cusser/cussatsur06ext.pdf</p> <p>The next survey will take place in 2009.</p>

Commitment	Achievements
Consult with affected communities on major projects	<ul style="list-style-type: none"> Local landholders were consulted to minimise the impact from construction works associated with the Lake Brewster Water Efficiency Project. A Statement of Environmental Factors for the project was exhibited for a month seeking input from community and other interested parties. State Water worked closely with DECC and customers in the Gwydir, Namoi and Border valleys to determine delivery dates for block releases to deliver small amounts of remaining allocation as well as environmental water. State Water held meetings with DECC, Gwydir valley Environmental Contingency Allowance manager and irrigator groups, consulted with the CSCs, undertook valley surveys of anticipated demand to tailor release strategies and issued customer notices. State Water surveyed water users along the Moomin and Mallowa Creek systems and advised users of repainting of the river control gates at Gundore Regulator. We also brought forward replenishment flows so no deliveries were needed for two months. Desilting work at the Treel Regulator Oftake required rescheduling of replenishment flows into Gingham Watercourse. This was undertaken in consultation with the Gingham Water Users Association. In 2007-08, State Water held a meeting with the Keepit Dam Upgrade CRP on 13 December to discuss State Water's preferred option and the content of the Keepit Upgrade Environmental Assessment submission prior to public exhibition. State Water also held follow up meetings and teleconferences. State Water held two meetings with the Chaffey Dam Upgrade CRP in 2007-08 to brief them on the progress of the dam safety upgrade, the status of the augmentation proposal and the need for confirmation of funding. These meetings were held on 29 October 2007 and 13 December 2007. On 11 April 2008, State Water met with Copeton Waters State Park about the impacts of the Copeton Dam upgrade. In addition to a public consultation session in October 2007, State Water also held a technical briefing for stakeholders on 18 June 2008. State Water had discussions with recreation park operators located upstream of Burrendong Dam who may be affected by an increase in the flood surcharge level as a result of the Burrendong Dam safety update. During construction of Colligen Creek Regulator and Lock 10 Lock Chamber refurbishment, State Water consulted directly and through the media with stakeholders and the community. In conjunction with MDBC and Goulburn Murray Water, State Water collaborated in the development of a community engagement strategy for the upgrade of Hume and Dartmouth Dams.

State plan priority - R4

Increased community participation

State Water continues to interact with the community, customers and stakeholders through a number of avenues including CSCs, CRPs, and CCC and involvement with Catchment Management Authorities.

Community participation is encouraged, especially given the implications of water delivery on rural towns and livelihoods.

Expressions of interest for the CSCs 2008-2012 term were called in April 2008. More than 190 nominations were received and of those, 181 members were elected.

In an effort to reduce paper consumption and increase environmental awareness, the new committee members received information packages on CD.

Determine needs and unsatisfied wants of customers

Improved customer and stakeholder satisfaction

State Water strives to ensure services are delivered to the satisfaction of its customers and other stakeholders.

Improvements to customer service levels this year have included an increase in the use of email-based water ordering and SMS text messaging to advise customers of changes in water availability and other announcement.

Customer notices are emailed direct to customers on a regular basis in all valleys and newsletters continue to be used effectively in the central and southern valleys.

Forums for customers and stakeholders to provide input to State Water's operations include the eight CSCs, Fish River Water Supply Customer Council and the CCC.

State Water receives feedback on its operations through CSCs, water user groups, the three-yearly Customer Satisfaction Survey and from concerns forms completed on the website or lodged directly with employees.

Although employees and customers have the option of formally recording the nature of a concern or issue on an official complaints form, only four complaints were registered using this process this year.

When the customer call centre is established in 2008-09 this figure may increase as the unit will have improved systems to record complaints data and an improved ability to analyse the trends in issues being raised.

Complaints handing

In the 2007-08 reporting year, State Water recorded 51 complaints.

Based on the IPART categories, a significant amount of complaints (11) were recorded against water delivery operations, which is to be expected given the drought conditions and challenges of delivering the small remaining reserve of water.

Billing complaints were also high (16), although a significant portion of those were customers expressing resentment at being required to pay fixed water charges in an environment of zero water allocations.

Of the complaints, 15 were totally resolved, four were referred to other organisations and 25 were completed, meaning a response was provided but it was not possible to resolve the issue (eg the aforementioned complaints regarding the existence of fixed water charges).

There were seven unresolved complaints. The majority of these were received via the Proclaim 1800 system late in the financial year and were not completed at 30 June 2008.

For those complaints that are not resolved at the local level, the vast majority are submitted to State

Water in the form of Ministerials arising from direct correspondence from the complainant to either their local NSW MP, the portfolio Minister or both.

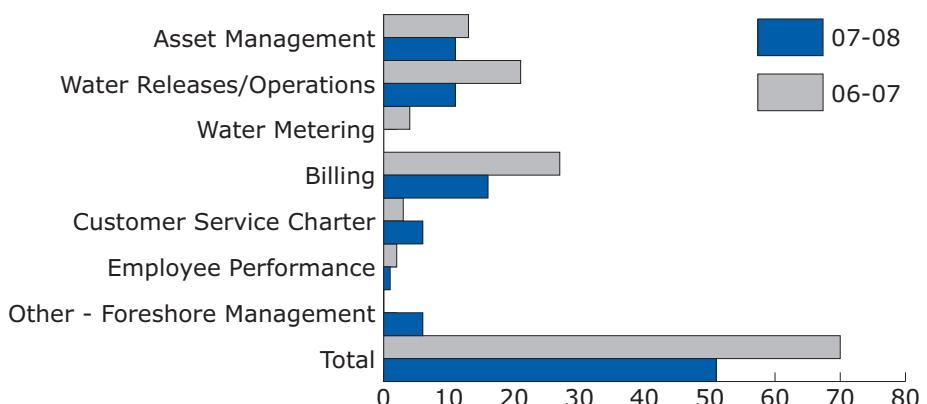
Of the 51 formalised complaints received throughout 2007-08, 35 were Ministerials.

A further 11 complaints were registered through the 1800 Proclaim billing system, though these tended to be of a more spontaneous nature, related to financial transactions or the concept of the fixed water charge.

As was the case in 2006-07 consistently low water allocations due to drought and scarcity of supply has generated more than half the complaints recorded in Proclaim for the reporting period.

In light of the total number of individual customers (around 10,000 regulated licences and 7,000 groundwater meters read under contract for DWE), the number of individual customer transactions (comprising almost 60,000 water orders and a record high of 6,076 temporary water transfers), State Water believes that the small number of complaints demonstrates the high level of service delivery in 2007-08.

Complaints via category



Case study

Surge in allocation transfers

Ongoing drought and rising water values have combined to place employees in the Murrumbidgee and Murray valleys in the midst of a surge in licence transfer activity.

In any given year State Water derives half its revenue from water charges from the Murray-Lower Darling and Murrumbidgee valleys. Irrigators in these two valleys alone can account for 65% of statewide water deliveries.

An absence of substantial rain and a spike in the value of water licences has convinced increased numbers of customers to take advantage of the water market rather than risk cropping.

The lion's share of the administrative workload needed to process this trend has fallen on the Deniliquin office and, to a lesser extent, the Leeton office.

In the 12 months of 2006-07 more than 3,500 water licence transfers were processed, of which 1,500 were interstate transfers.

In 2007-08 approximately 5,500 allocation assignments have been processed, of which 3,600 have been interstate.

In the Deniliquin office, Customer Service Officer Karen Axton and Program Support Officer Liz Conallin have handled the bulk of the increased demand, ably assisted by Customer Service Officer Scott Crawford in Leeton.

Karen said a recent upgrade to the Water Accounting System had hastened processing and eased the pressure caused by the increased transfer activity.

"The upgrade has certainly helped us cope quite well," she said.

"We're now able to more quickly do things like enter applications, reconcile them and record details we need for our reports."

State Water Chief Executive Officer, George Warne, said it is a credit to the frontline employees that they have been able to manage such a dramatic increase in customer activity.

"I spoke to Karen at the Water Delivery Forum in Griffith in May and was impressed to hear how well they are performing in an environment of hectic water trading," he said.

"I understand the computer upgrade had a bearing on the amount of processing they were able to complete, but successfully providing that level of customer service is certainly no mean feat."



Communicating the effectiveness and efficiency of State Water

Increase in brand awareness

One of the biggest challenges for State Water has been distinguishing its role from DWE.

To improve this understanding, State Water formulated an extensive Marketing Plan which was endorsed by the Board in November 2007.

In June 2006, State Water undertook a Customer Satisfaction Survey which gave the corporation valuable feedback on its performance from a customer perspective.

The survey indicated five key areas of concern for customers:

1. Customer contact
2. Water ordering and delivery
3. Invoicing
4. Information
5. CSCs

The marketing strategy for 2007-09 is based on the strategy in response to the 2006 Customer Satisfaction Survey results. It relies on developing and expanding existing communication channels and business opportunities, low-key branding initiatives and pursuing inexpensive opportunities to raise the profile of the organisation and focus on the importance of the customer.

All marketing strategies are supported by a Communication and Promotion Strategy.

The 2007-09 Communication and Promotion Strategy for State Water is based on two campaigns:

- Customer Satisfaction Strategy Campaign
- Brand Knowledge Campaign.

State Water's current strategic marketing focus for the short term is focused on enhancing and promoting State Water's brand and making the most of promotional opportunities.

Some examples of current and planned activities include:

- Branding guidelines - ensuring the consistent presentation of the logo and updating of documents and promotional materials

- CEO/senior manager presentations at a minimum of two key conferences or industry forums per year
- Initiatives for the CEO to engage with key customers, including e-newsletters and at least one CSC Chairs meeting
- Employees encouraged to attend appropriate networking functions
- Sponsorship of a function at two key water industry conferences annually
- Establishment of a statewide 1300 phone number
- Signage of vehicles with the State Water logo
- Information kit for new customers, explaining the role of State Water as separate from the DWE
- Nomination in at least one regional small business award for people development achievements
- Annual report produced as a marketing and reference tool, highlighting State Plan objectives and promoting State Water as an employer of choice
- Voluntary corporate wardrobe for office-based employees.



General Manager Finance, Jane Redden.



Working towards tomorrow 2008-12

Provide water-related services that respond to the growing variety of customer needs - specifically recognising the value of water, the environment, and customer service.

We will:

- Provide premium services, where profitable, above those funded by IPART-approved maximum charging
- Recognise the environment as a key water user and develop value adding services to assist emerging environmental water managers
- Modernise interaction with our customers through the introduction of existing, proven, service-industry technologies
- Improve customer understanding of river operations

How we will achieve our goals:

- Identify demand for different levels of customer service and establish options for delivery
- Deliver new customer service options and monitor uptake
- Raise awareness among employees of water for the environment as a customer base
- Recognise the environment as a separate group in customer satisfaction surveys
- Facilitate participation on CSCs by DECC as a representative for environmental water
- Develop a customer relationship database system to improve relationships with customers
- Deliver the majority of customer interactions through the call centre or by internet, while improving customer satisfaction
- Develop a strategy to communicate the benefits of using internet information services
- Educate CSCs about water delivery planning
- Migrate to increasing use of call centres to provide information on water allocations, pricing, transfers and delivery.



Andrew Larpent at Keepit Dam dissipater during a water release.



Best Practice Operations

Operate effectively and efficiently

Safe and productive work environment

State Water puts safety above time, cost, productivity and employment.

The organisation has introduced inductions for on-site visitors and invested in internal and external training courses to ensure employees are trained in safe and effective operations.

Some of the safety-related training that was developed and/or delivered during 2007-08 was:

- Electrical hazard management
- Asbestos identification and hazard management
- Industrial rope access (abseiling)
- Scaffolding
- Dogging
- Remote area first aid
- Construction induction training
- Meter/pump site hazard identification and risk assessment
- First aid
- OH&S consultation
- Chainsaw
- Chemical handling safety
- Return to work coordination
- Confined spaces
- OH&S auditing
- Manual handling
- OH&S risk management for supervisors and managers.
- Train the trainer accreditation.

Presentations on safe and effective operations were made by the OH&S Coordinator at several employee forums. Agenda topics included site risk assessment and an overview of State Water's OH&S targets and strategies.

Bi-monthly OH&S newsletters were prepared for employees to provide information about legislative changes and new national or state codes of practice.

The newsletters aimed to ensure State Water employees comply with

industry best practice. To improve OH&S awareness and the newsletter also update employees on current OH&S legal cases.

Six OH&S Committees ensure OH&S issues raised by employees are addressed.

Water efficiencies

State Water initiated a number of measures to increase operational efficiency in response to the ongoing drought:

- Effluent creek beds were left dry and orders were grouped in the Macquarie-Cudgegong valley to increase water efficiency.
- In the Lachlan valley the Brewster Weir Pool was reduced to very low levels and smaller structures in the lower Lachlan were used for micro re-regulation to conserve water.
- The Belubula valley introduced different delivery arrangements including the trial of group orders.
- In the Gwydir valley, water savings were gained through block releases and reducing the number of days over which the river was run.
- In the Murray-Lower Darling valley, efficiencies were made by reducing minimum flow targets, temporarily disconnecting wetlands, lowering weir pools and reducing losses due to shorter periods of deliveries in the Wakool system.
- Four low-flow valves were installed on four coastal dams to maintain riparian requirements and reduce losses during low demand periods.
- The Hunter valley implemented and maintained self-regulation of access to uncontrolled flows to improve timely advice to licence holders.

Water delivery

Water delivery in 2007-08 was dominated by the continuing drought and large parts of the state recorded below average rainfall again this year.

In the southern catchments this followed two very dry years and for some of these areas the rainfalls were the lowest two and three year totals ever recorded.

The total State Water storage level in July 2007 was 16% of capacity.

This rose to 20% in September 2007 and remained between 20% and 25% for the rest of the year until it rose to 26% in the last few weeks of June 2008.

The usual summer drawdown of storages was offset by summer storms in the Darling River catchments that ultimately took the Menindee Lakes scheme from 2% of capacity in December 2007 to 35% in March 2008.

Total water deliveries of 1,125GL in 2007-08 were about 20% of the long term average sales and the lowest since the development of the irrigation industry.

This was only about 50% of the 2006-07 deliveries of 2,200GL that had set a new record for low sales.

WSPs remained suspended in the Murray-Lower Darling, Murrumbidgee, Lachlan, Macquarie-Cudgegong and Hunter valleys.

This allowed for drought management measures that were beyond the capacity of WSPs.

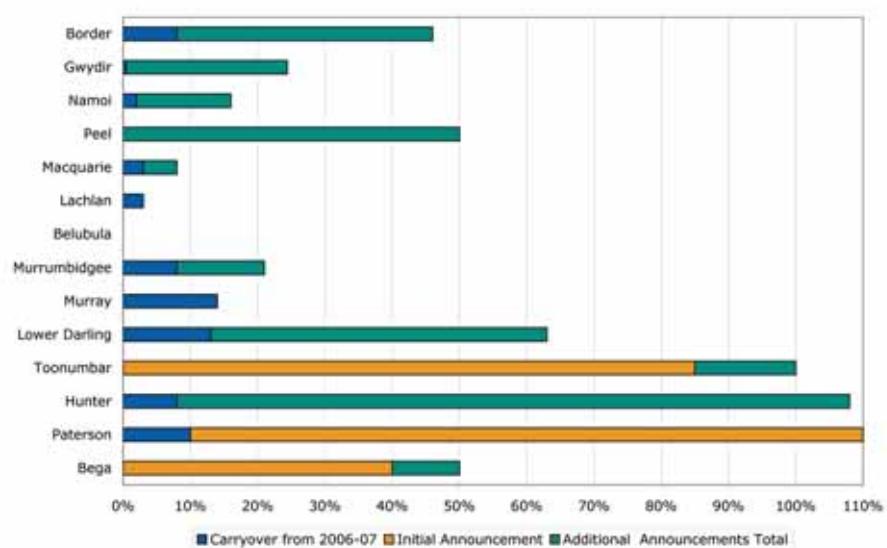
State Water delivered all water required under environmental rules of WSPs and those instructions issued when plans were suspended.

State Water delivered all water ordered by general security customers.

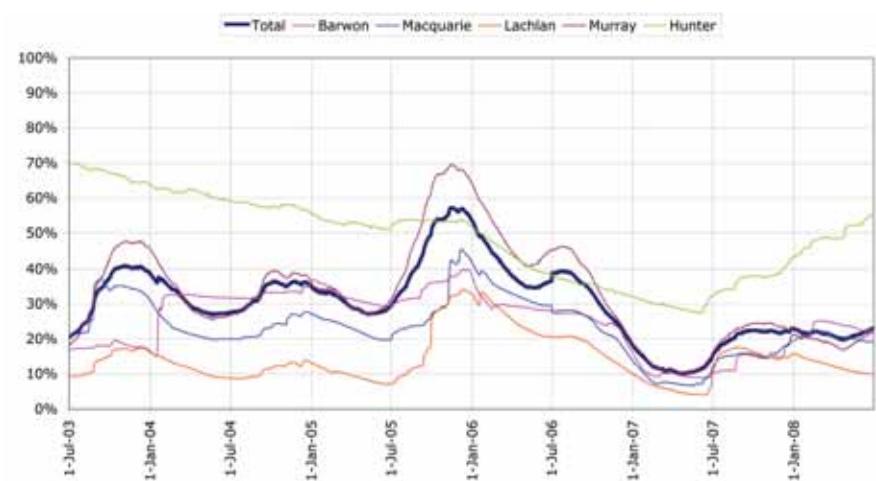
Adaptive environmental water

Adaptive Environmental Water (AEW) flows are the flows of water in our streams and rivers that are necessary to maintain aquatic ecosystems. We rely on our rivers for a range of functions including biodiversity and conservation, irrigation and domestic water supply. Rivers and streams need to be healthy to provide these functions.

General security water availability 2007-08



Total storage



The Water Management Act 2000 describes AEW as "water that is committed by the conditions of access licences for specified environmental purposes".

Specifically it is water designated for the environment from either savings, as a result of efficiencies in delivery, or water purchase. The use of AEW is governed by a management plan, under the Water Management Act 2000.

This year State Water has:

- Facilitated the establishment of Water Supply Works Approvals to deliver AEW from RiverBank licences. Nearly 8,700ML of environmental water was delivered to the Macquarie Marshes allowing water levels to be maintained in the northern nature reserve long enough to allow waterbirds to breed successfully.
- Assisted in the development of Water Use Plans for AEW adaptive environmental water licences held in the Lachlan and Macquarie valleys by RiverBank.

There are a total 96 access licences allocated to Commonwealth and NSW State Government for AEW flows with a share component of 202,668.69.

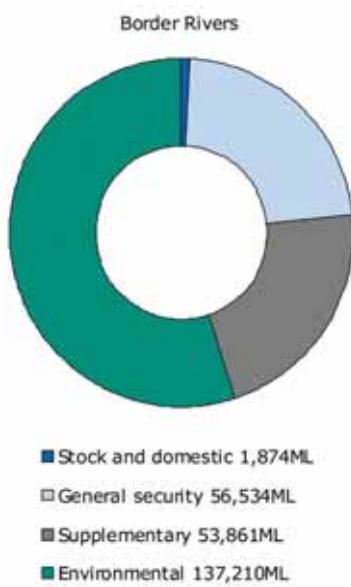
Border Rivers

Levels in Pindari and Glenlyon Dams at the end of June 2008 were 34% and 31% respectively, compared to 20% and 13% in June 2007.

Allocations in the Border Rivers started the year at the equivalent of 10% for general security licence holders and finished the year at 24%.

The embargo on unregulated flows was lifted in late December and up to 39% of off allocation was announced in the Border Rivers.

Pindari Dam environmental releases were made in accordance with Environmental Impact Statement rules. A stimulus flow was released in August while pass-through flows were made throughout the year in accordance with Environmental Impact Statement rules.



Fish River Water Supply

The 2007-08 year saw a continuation of the worst drought on record. The Oberon Dam started the year at 16.3% and rose to 17.5% before returning to 14.8% by the end of the year.

The Fish River Water Supply Scheme was able to supply 6,942ML of water to four major customers. Major customers remained on only 60% allocation.

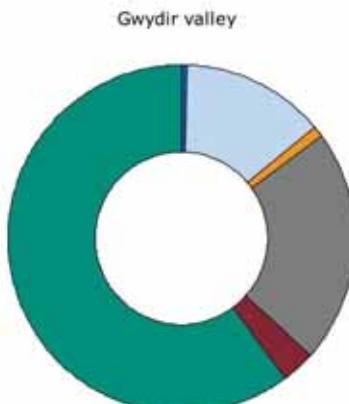
Gwydir valley

Copeton Dam began the year at 10% of capacity and ended at 21%.

General security allocation was less than 1% at the start of the water year and increased to 24.2% during the year. General security customers will start the next season with 21% in their account balances.

Water savings were gained through block releases and reducing the number of days over which the river was run. The embargo on unregulated flows was lifted in late December and supplementary access ranging from 1% to 100% was granted depending on specific location.

State Water successfully delivered 10,000ML of environmental contingency allowance water to the Gwydir wetlands in November and December 2007. The Gwydir and Gingham wetlands both received 5,000ML.



Category	Allocation (ML)
Stock and domestic	634ML
High security	8,225ML
General security	19,149ML
Local water utility	5,675ML
Major utility	7,734ML
Supplementary	64,435ML
Conveyance	19,971ML
Environmental	783,031ML

Hunter valley

The Hunter valley began the water year with 0% allocation for general security and reduced high security allocations despite flooding which occurred in June 2007, however by February 2008 allocations increased to 100% for all licence categories.

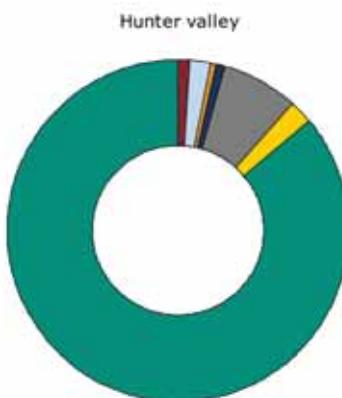
Dam levels increased from a combined capacity of 32.5% (27.3% in early June 2007) to about 55.4% at the end of June 2008. About 2% of the volume stored is water that has been physically transferred from another valley (Barnard) and is stored on behalf of a power generator.

Natural inflows into the dams totalled about 255,400ML which is 45% more than long-term average expected inflows.

The valley received good rain and the total annual flow into the estuary was more than 780,000ML. The total regulated release from the dams was less than 8,500ML.

Many uncontrolled flow events occurred at the beginning of the water year and supplementary water access was announced for 242 days of the year. In all, 105,853ML was used during supplementary water events.

Enough water was available in the dams for a 10% carryover of unused water in general security licence accounts to the 2008-09 water year, with allocations of 100% available for all categories of licences.



Category	Allocation (ML)
Stock and domestic	634ML
High security	8,225ML
General security	19,149ML
Local water utility	5,675ML
Major utility	7,734ML
Supplementary	64,435ML
Conveyance	19,971ML
Environmental	783,031ML

Lachlan valley

The Lachlan valley continued to operate under drought contingency measures and the WSP remained suspended for the fourth consecutive year.

The Lachlan valley operation successfully maintained a continuous flow to the end of the river system for the fourth consecutive year while still under drought, with overall stakeholder satisfaction.

The valley started with very low allocations, but progressively increased with improvements in the storage as per recommendations from the CRP and the Lachlan Valley Customer Service Committee.

Final allocations for the year were: towns 70%, stock and domestic 50%; and high security 30%. General security allocations once again remained at 0%.

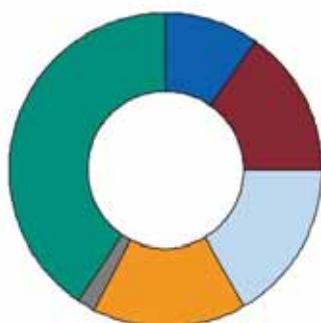
The access to carryover balances was limited and progressively increased to 40%, a volume equivalent to about 3% of total share components.

The water trading market was active and critical industries were able to access water to maintain production.

Stock and domestic replenishment flows to the Merrimajeel-Muggabah system were successfully completed in the July-September 2007 period.

Continuous low flows were maintained in the Wallamundry creek system, while Booberoi creek received one stock and domestic replenishment flow.

Lachlan valley



- Stock and domestic 4,605ML
- High security 7,156ML
- General security 7,772ML
- Local water utility 7,436ML
- Conveyance 892ML
- Environmental 18,959ML

A replenishment flow was allocated and combined with a delivery to a licensed user in the regulated section of Willandra creek in January 2008. Inflows into Carcoar Dam were very low, resulting in 0% allocation for general security. However, this increased to 20% after downstream flow triggers.

Due to dry tributaries below Carcoar Dam, delivery losses in the later part of summer were substantial. The year started with 50% allocation for high security licences which was available for three months to the end of September.

Trading was allowed in the upstream direction only. The high security allocation was increased to 100% in December after storms generating flows in the river downstream of the dam.

Macquarie-Cudgegong valley

The Macquarie-Cudgegong valley continued to operate under drought contingency measures and the WSP remained suspended to maintain critical water supplies to towns and industries.

The valley started with very low allocations, which were progressively increased with improvements in the storage as per the recommendations of the Critical Water Reference Panel and the Macquarie-Cudgegong valley CSC.

Summer rains resulted in an increase in allocations. All high security, town water supplies and stock and domestic allocations were increased to 100%, all restrictions to carryover access were lifted and inter-valley trading restrictions were removed by early January 2008.

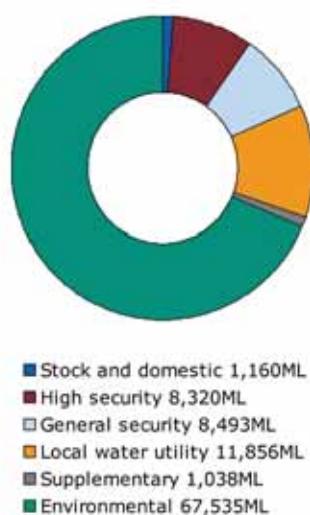
Further inflows to the storages resulted in 5% allocations in two increments to general security licences in February 2008.

A significant flow event from all the gauged tributaries below Burrendong Dam around Christmas 2007 resulted in a one-day supplementary event below Warren.

About 1,038ML was extracted by supplementary licence holders. Total extraction from the Macquarie-Cudgegong Rivers was about 30,866ML.

A total of 112 assignments of allocation were processed transferring about 6,280ML.

Macquarie Cudgegong valley



- Stock and domestic 1,160ML
- High security 8,320ML
- General security 8,493ML
- Local water utility 11,856ML
- Supplementary 1,038ML
- Environmental 67,535ML

Murray-Lower Darling valley

The WSP remained suspended in the Murray valley received record low allocations for the 2007-08 water year.

Critical water allocations were made to some customers by DWE as assessed on a case by case basis.

There was sufficient improvement in resources to progressively repay all water temporarily suspended from the 2006-07 water year.

Final allocation for the year were: 50% for local water utilities, 50% for stock and domestic, 25% for high security and 0% for general security users.

Low water availability resulted in record numbers of water allocation assignment applications being lodged with State Water for the southern valleys, with the sale price of temporary water at one point exceeding \$1,200/ML.

Low water availability left many customers without fresh stock and domestic supply for much of the season although there were very limited environmental and stock and domestic supplies to the majority of the Wakool system.

The WSP remained suspended at Menindee Lakes and drought contingency measures dominated the management of the scheme during the 2007-08 water year.

The season began with nominal storage at only 5% and no releases made downstream of Weir 32

between May and August 2007. Following stakeholder consultation, a 12GL release was made from Lake Pamamaroo between August and September 2007 as a replenishment flow into the Darling River downstream of Weir 32.

This effectively released the remaining active storage in Lake Pamamaroo that would otherwise have evaporated during the summer period without benefiting users.

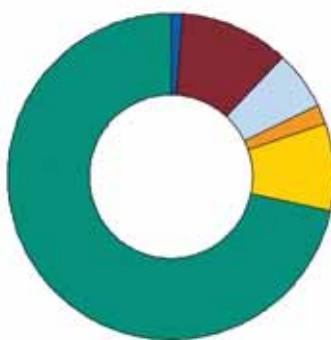
Replenishment flows provided valuable stock and domestic supplies and were used to refill two temporary in-river storages downstream of Burtundy Weir to maintain essential supplies for permanent planting in the area.

Summer inflows increased the storage at Menindee Lakes from 2% to 35% of nominal capacity by late March 2008.

The substantial improvement in water availability allowed for the private temporary control banks downstream of Burtundy Weir to be removed.

The water availability also improved town water supply security for Broken Hill beyond 21 months.

Murray Lower Darling valley



- Stock and domestic 8,184ML
- High security 87,140ML
- General security 45,054ML
- Local water utility 15,780ML
- Conveyance 70,000ML
- Supplementary 25ML
- Environmental 568,470ML

Murrumbidgee valley

The effects of the drought continued to impact on water availability in the Murrumbidgee valley.

The valley received above minimum inflows in July and August and this contributed to early return of water that was suspended in the 2006-07 water year.

Further improvements in inflows, particularly between October and January, contributed to general security allocation reaching 13% with high security reaching 90%. Since March 2007, inflows have fallen to, or below levels previously recorded.

State Water continued with drought contingency measures initiated during the 2006-07 water year. This included creating maximum air spaces in downstream weir pools and minimum releases from the dams.

Total extraction from the Murrumbidgee River was 460,000ML, 50% less than 2006-07 extraction. Irrigators and entitlements holders generally elected to either carry over the water allocated to them or temporarily trade the water.

This is reflected in the number of trades and volume traded in the Murrumbidgee valley. A total of 2,600 trades totalling over 389,000ML was traded within and out of the Murrumbidgee valley.

Murrumbidgee valley



- Stock and domestic 30,374ML
- High security 17,907ML
- General security 75,350ML
- Local water utility 11,544ML
- Conveyance 175,067ML
- Environmental 188,358ML

Namoi-Peel valley

Keepit Dam began the season with 4% of capacity and ended with 21%.

General security allocation was 3% at the start of the water year and there was 13.6% credited to accounts throughout the year. General security customers will start the next season with 11% in their account balances.

Environmental releases were made from Keepit Dam to maintain end-of-system flows at Walgett in June 2008. Water savings were gained through block releases and reducing the number of days the river was run.

Supplementary access was granted after the unregulated flow embargo was lifted with access ranging from 25% to 100% at various location.

Split Rock Dam started the year at less than 3% and ended at 5.5%.

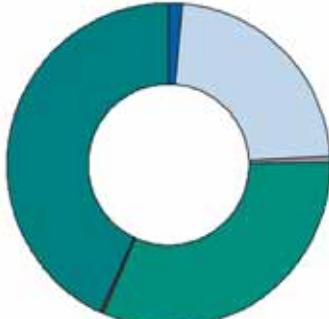
Upper Namoi customers started with 0% allocation, which increased to 50% in February when the volume in Split Rock rose above 5% of capacity. Upper Namoi customers will start the next season with 50% allocation.

Peel valley general security customers started with 0% allocation which increased to 50% during the water year. Chaffey Dam started the year with 26% of capacity and ended the year with 77% of capacity.

General security customers will start next season with about 30% allocation. Off allocation was announced throughout the year for general security users.

Supplies to Tamworth Regional Council were maintained throughout the year.

Namoi-Peel valley



- Stock and domestic 1,185ML
- General security 20,607ML
- Local water utility 440ML
- Supplementary 28,691ML
- High security 283ML
- Environmental 38,665ML

North Coast

The 2007-08 water year was dominated by increased summer rain which led to Toonumbar Dam level exceeding any previous flood level since the dam was built.

In January the spilling from the dam, with very high tributary flows, led to major flooding in all valleys downstream of the dam.

The rain enabled the initial 85% allocation level for general security licence holders at the start of the water year to be raised to 100% by the end of December.

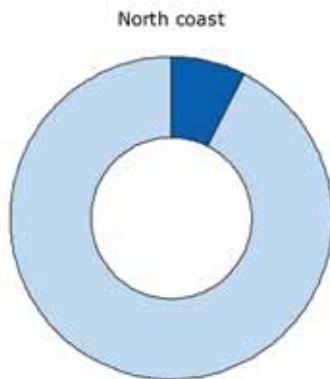
Water use remained low as rain and high river flows continued throughout the later part of the year. Total water use was 786ML.

Off-allocation access was available for 169 days through the year. In the first six months, prior to the dam spilling, about 1,650ML was released under regulated conditions to maintain flows for downstream water users.

Spilling from Toonumbar Dam occurred for 177 days in 2007-08 with a total of 78,600ML or more than seven times the total dam capacity, flowing over the spillway.

Total rainfall for the year at the dam was about 1520mm.

At the end of the water year the dam was spilling with 100% allocations secure for 2008-09.



■ High security 58ML
■ General security 729ML

Paterson River

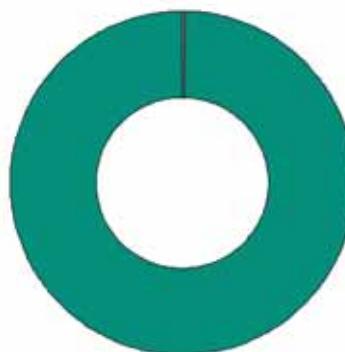
There were no restrictions in the Paterson valley in the 2007-08 water year with allocations of 100% for all customers and the introduction of water sharing plans.

Lostock Dam spilt for 328 days, which is the equivalent of nearly 260,000ML or 13 times the total dam's capacity.

Water use was low due to rain, with total usage of 942ML. This water was supplied during periods when the dam was spilling with 600ML released under regulated conditions when natural flows were insufficient to meet regulated river requirements.

There was sufficient water reserves at the end of the water year to allow 100% allocations to all categories of licences in 2008-09 plus a 10% carryover of any unused account water from 2007-08.

Paterson valley



■ High security 2ML
■ General security 560ML
■ Supplementary 380ML
■ Environmental 464,012ML

South Coast

Brogo Dam spilt for a total of 263 days, with a total volume of nearly 36,900ML or more than four times the dam capacity.

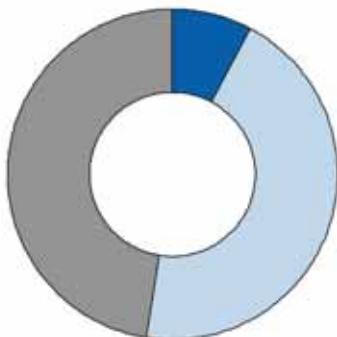
A total of 3,973ML was released under regulated conditions from the dam during periods when natural flows were not sufficient to meet minimum regulated flows.

Water use for the year was in the mid range, with 5,623ML pumped by licence holders. Of this, 2,675ML was taken during off allocation events that were announced for a total of 333 days.

The initial general security allocation of 40%, which is the maximum allocation that will be announced at the start of any water year, was increased to 50% in December.

As Brogo Dam was near to capacity in June 2008, an initial allocation of 40% is available for general security licence holders in 2008-09.

South Coast



■ High security 433ML
■ General security 2,515ML
■ Off allocation 2,675ML

Number of regulated river (*Water Management Act 2000*) licences

Licence Numbers	2004-05	2005-06	2006-07	2007-08
Gwydir	439	444	461	461
Lower Namoi	548	556	573	554
Upper Namoi	102	106	108	106
Border River				121
Peel River				72
Macquarie-Cudgegong	1,449	1,481	1,475	1,499
Lachlan	1,409	1,453	1,454	1,519
Belubula			75	76
Hunter	1,342	1,361	1,379	1,399
Paterson	-	-	142	144
Brogo/Bega valleys				90
Iron Pot/Eden Creek				52
NSW Murray	2,631	2,728	2,707	2,911
Lower Darling	259	261	266	273
Murrumbidgee	1,482	1,520	1,585	1,599
Total	9,661	9,910	10,225	10,876

Number of works approvals

Works approvals	2004-05	2005-06	2006-07	2007-08
Gwydir	136	142	211	212
Lower Namoi	228	230	240	240
Upper Namoi	67	78	97	97
Border River				121
Peel River				72
Macquarie-Cudgegong	601	627	674	678
Lachlan	755	864	968	972
Belubula River			75	76
Hunter	826	828	853	864
Paterson	-	-	100	102
Brogo/Bega Valleys				90
Iron Pot/Eden Creek				52
NSW Murray	983	1,125	1,523	1,544
Lower Darling	128	132	195	195
Murrumbidgee	665	685	853	863
Total	4,389	4,711	5,789	6,178

Water Act 1912 reports on Work Approvals only - each Work Approval has attached licences which are not included in the Licence Number table above.

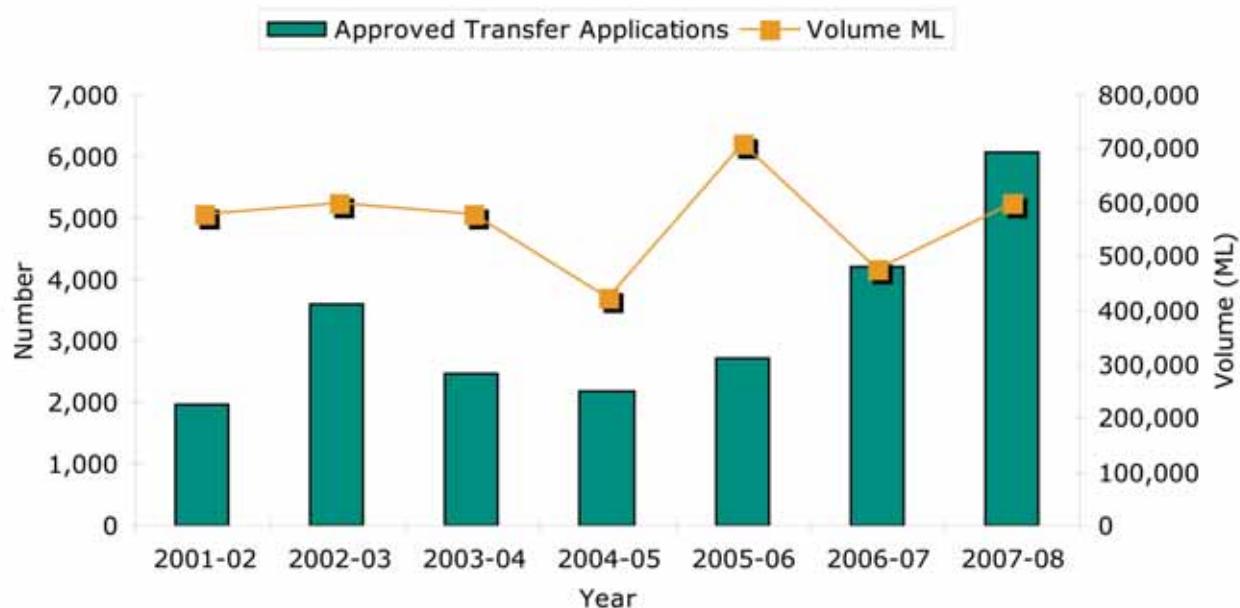
Regulated customers billed 2008

Area	2004-05	2005-06	2006-07	2007-08
North	698	794	717	863
Central	1,361	1,596	1,539	1,731
South	2,057	2,311	2,233	2,599
Coastal	820	1,307	886	1,044
Total	4,936	6,008	5,375	6,237

NSW allocation assignments

Annual Summary	Number	Vol	\$M
2001-02	1,992	578,012	14.84
2002-03	3,585	597,698	15.35
2003-04	2,482	577,782	14.84
2004-05	2,173	423,929	11.18
2005-06	2,735	711,333	17.78
2006-07	4,213	477,740	53.95
2007-08	6,076	598,370	155.96

Approved allocation assignments



2007-08 regulated river prices

Region	No.4 2006 - State Water 01.07.2007 to 30.06.2008			No.5 2006 - DWE 01.07.2007 to 30.06.2008		
	High security (\$/ML)	General security (\$/ML)	Usage (\$/ML)	High or general security (\$/ML)	Usage (\$/ML)	Or minimum charge
*Border	4.19	3.05	4.82	1.31	1.53	60.00
Gwydir	5.17	3.09	6.12	0.73	0.86	60.00
Namoi	8.68	6.40	9.49	1.14	1.36	60.00
Peel	11.51	3.38	17.45	1.10	1.99	60.00
Lachlan	6.41	3.36	7.62	0.91	1.04	60.00
Macquarie-Cudgegong	4.72	2.94	6.13	0.83	1.12	60.00
Murray-Lower Darling	3.59	3.11	2.54	1.32	0.35	60.00
#Murrumbidgee	2.87	2.31	2.18	0.99	0.26	60.00
North Coast	8.10	6.31	16.63	2.19	1.47	60.00
Hunter	13.41	5.73	8.49	1.15	1.14	60.00
South Coast	10.61	7.20	15.19	2.18	1.46	60.00

*Pindari Levy is an additional charge on Border Rivers usage. The 2007-08 rate is \$16.08. This is not an IPART determined price but is indexed 5% each year. # Yanco Columbo System Levy - An additional \$0.90 per ML/Unit Share of entitlement for Yanco Columbo System licences. A Minimum Annual Charge of \$60 applies to DWE regulated charges.



Gate valves used for water regulation.

Conduct a business analysis of corporate systems

State Water relies on a range of corporate systems to support our business.

These systems include the financial, information technology, information management, facilities maintenance management and organisation development, which includes HR and payroll systems.

Many of these systems are currently under review and new systems are being considered.

One is a project management system to ensure that State Water has systems which adequately perform and support our business activities.

The systems review project called Corporate Information Systems Project was set up in response to difficulties arising with the financial system and Cost Structure Reform Program developed in response to the 2006 IPART Price Determination, which requires State Water to progressively reduce its regulated operating expenditure by 14% against planned levels by 2009-10.

The overall objective of this project is to ensure all corporate information systems are established in an effective and timely way.

Key aspects of the project are to:

- Review the status of existing systems and make

improvements, enabling an understanding of current issues and improved communication

- Undertake stakeholder, business and system analyses to ensure effective involvement of employees and contractors, as well as address overall corporate requirements
- Design and establish the project program to meet critical and continuous improvement time frames
- Implement the program.

The project is being undertaken in three phases:

Phase one - *Detailed scoping, initiating and resourcing the project.*

Phase one has been completed and included an overall business analysis, which identified corporate financial information system upgrades and streamlining as the most critical and the highest priority for the organisation.

Phase two - *Ensuring key Board, management, and stakeholder reporting target dates for 2006-07 are met and critical information and reporting systems are effectively established.*

Phase two involved the coordination of the 2006-07 financial systems process, associated with reporting and meeting key target dates.

This coordination was completed by September 2007 in accordance with the 2006-07 financial reporting program.

The Integrated Financial Management System reconfiguration was completed in early 2007-08 and the majority of the key associated processes including development of a new payroll system, were updated and functional by early 2007-08.

Phase three - *The program for ongoing other system improvement was completed in 2007-08, which will result in progressive completion of key other systems and their appropriate linking by the end of 2009-10.*

The development of other high priority system improvements with more detailed understanding was undertaken in first half of 2008 as part of new organisational arrangements.

Key priority systems needs are being reviewed in the light of the new organisational arrangements and include project management, customer information, water delivery enhancement, dam safety surveillance and SCADA.

Other systems will progressively be reviewed in 2008-09.

Consolidate and streamline corporate systems, policies, procedures and information management

Technology improvements project

As part of establishing the new organisational arrangements, the future development of all corporate information systems has been considered under a technology improvements project.

High priority projects have been identified in customer service, water delivery operations, dam safety and asset maintenance.

Projects will use existing, proven technology. The timely implementation of the new technology is essential to maintain and enhance service levels and secure efficiencies under the new organisational arrangements.

Given the high level of internet use by customers, the majority will find State Water's new transaction processes more convenient than existing arrangements.

Targeted personal management for customers will still be available if required to address any outstanding issues.

The technology improvements involve accelerating projects that State Water would have undertaken in the future, irrespective of the changed organisational arrangements.

Policies identified

Over the past few years State Water has been updating its policies to suit the changing needs of the corporation and the move out of the traditional government environment.

During the year, 15 policies were developed or updated.

There was a strong focus on people-related policies as part of the negotiation process for the new Enterprise Agreement and the restructure of the organisation.

Policies in this area included:

- Restructure Recruitment Management
- Recognition of service
- Grievance management
- Regulatory compliance
- Employee planning and review (EPR)
- Displaced employees
- Leave management
- Various OH&S policies.

Other policy areas addressed in the year were:

- Motor vehicle selection
- Motor vehicle usage
- Asset management
- Internal reporting (protected disclosures)
- Risk management
- Capitalisation
- Procurement.

The policies scheduled for development and/or updating in 2008-09 include:

- Sick and carer's Leave
- Water debtor management
- Code of conduct
- Internet and records management systems.

Information technology migration

State Water is now operating from its own stand-alone IT network, after an extensive network migration was undertaken from DWE. The project to move onto a separate IT platform began in late 2006.

The independent network has provided State Water with IT infrastructure capable of supporting current and future business growth.

The first step towards the independent network was to improve the quality of communications to remote sites – that is, to deliver "always on" connections, to remove the old dial-up links and replace them with modern satellite or ADSL communication.

Changes to the system included a change of email system from GroupWise to Microsoft Exchange and Outlook.

While some software systems, such as the Water Accounting System and Water Quality Systems will continue to be shared, the new network gives State Water much greater autonomy to improve business applications.

The IT team designed the new network to support future enhancements, as well as to provide a platform to enable business process improvement in several areas including SCADA, HYDSYS, CAIRO, and TRIM.

The team worked closely with DWE, SCADA and CAIRO specialists to achieve the best possible operational outcomes.

The development of a stand-alone State Water network represents a significant investment in the future of the business.

Audit and review operations

State Water uses a risk-based three-year audit cycle wherein the core business and resource management processes are subject to regular audit.

Audits are either annually or every third year depending on the level of risk.

IAB Services was engaged to undertake the nine reviews included in the 2007-08 Board approved audit schedule covering:

- Water billing
- Compliance framework
- Tendering and procurement
- Contract management and project management
- Financial management system (IFMS)
- Payroll

- OH&S
- Environmental management
- Fraud and corruption control

All recommendations from these reviews are recorded and the action plans tracked to ensure timely completion.

The State Water Corporation Audit and Compliance Committee receives a full report of progress on the implementation of Management Action Plans. The Committee in turn reports to the Board.

State Water also reviewed and revised its Code of Conduct and conducted a Fraud Control Health Check survey using internal resources during 2007-08.

Annual surveillance inspections

State Water undertakes annual surveillance inspections for each dam, in accordance with DSC requirements.

In 2007-08, State Water completed 17 dam safety inspections, achieving 80% compliance with this requirement.

Maintenance audits

Due to progressive improvements in maintenance at State Water storages, maintenance audits were rescheduled to two-yearly for most assets.

Frequency of surveillance inspections has also been reduced for certain river structures.

Improve management of risk

State Water faces a variety of risks relating to climate, assets, costs, workforce and systems.

The organisation has developed a comprehensive risk management strategy to maintain these risks within tolerable levels.

State Water has also developed a Risk Management Manual which accords with the Australian and New Zealand Risk Management standard

AS/NZ4360 to assist the organisation to identify, manage and minimise risk.

The State Water Risk Register was revised in June 2008. The revised risk register focuses on strategic risks facing the corporation, while operational risks are managed within the various lines of business.

The State Water Board adopted a policy of having senior managers

attend Board meetings on a rotational basis to demonstrate to the Board how risks are managed and mitigated within their line of business.

State Water is also in the process of purchasing and implementing a Governance, Risk and Compliance system to automate and embed the review of its internal control processes.

State plan priority - E1

A secure and sustainable water supply for users

State Water aims to deliver the right amount of water to the right people at the right time, as determined by water sharing plans (WSPs). Based on WSP rules, water is shared throughout the year, providing water for the environment and consumptive use.

State Water undertook proactive management for optimal water delivery, including:

- In the Lachlan and Macquarie-Cudgegong valleys, State Water contacted 95% of customers within one working day of a non-complying water order being placed.
- Customer notifications indicated that only 0.005% of complying orders were delivered outside of one day of the scheduled day of delivery.
- In the Lachlan and Macquarie-Cudgegong valleys, State Water rescheduled 100% of the total number of water orders within one working day of the known water shortage or delivery delay.
- Daily flow targets were met 96% of the time in 2007-08, up from 91% in 2006-07.
- There were 1,932 intra-valley transfers in 2007-08. State Water processed 65% of these trades within four working days.

Case study

Fraud check questionnaire

State Water places great emphasis on not only complying with all laws and policy parameters regulating its conduct, but also in doing so transparently and openly.

Consequently State Water has taken many steps to minimise the organisation's vulnerability to damage due to inadvertent or deliberate fraudulent behaviour by employees.

After preliminary investigations and planning in early 2007, State Water moved to implement the next stage of the process during 2007-08: the Fraud Check Questionnaire.

The questionnaire was based on NSW Audit Office guidelines and was distributed to all State Water personnel in the form of a brief, anonymous survey in March 2008.

From the 350 survey forms distributed, 104 responses were returned by the 14 April deadline, a participation rate of 29.7%. (The NSW Audit Office's *Better Practice Guide Fraud Control Improvement Kit 2006* states that responses from 10% to 20% of employees across the organisation is a sufficient sample).

To assure responses were anonymous, employees were asked to identify only their work unit and to mail the completed form to State Water's Parramatta office.

Analysis of the survey outcomes indicated that State Water's situation with regard to minimising fraud was generally satisfactory, with responses rated "good" in six of the 10 response categories.

In the remaining four categories, two [fraud risk assessment, employee awareness] were categories requiring prompt action and two were categorised as requiring less urgent action [integrated macro policy, detection systems].

In light of the survey outcome State Water will conduct training and education sessions to address those aspects of fraud awareness needing attention and enhance the organisation's ability to meet its legal and regulatory obligations.

A comprehensive Fraud and Corruption Risk Assessment will be carried out by the Internal Audit Bureau commencing September 2008, as part of State Water's internal audit schedule.



Clearly communicate efficient operating costs

A Cost Structure Reform Strategy was instituted following a determination by IPART in 2006.

The determination required State Water to reduce regulated operating expenditure by \$3.3 million (including inflation) in 2007-08, and by a further 14% (or \$5.5 million on 2007-08 SCI values) over the financial years 2008-09 and 2009-10.

As salary and wages with on-costs currently constitute 64% of State Water's regulated costs, the major share of reductions needs to come from salary and wages.

State Water achieved savings in 2007-08 principally by deferring asset maintenance programs and business improvement projects, limiting recruitment activity and reducing employee numbers through natural attrition.

In 2007-08 there was no fundamental change to the way business was undertaken or the way the business was structured to meet target operating expenditure.

However the Board and management recognised that the organisation could not continue to meet its operating expenditure targets in this way without impacting unacceptably on the functioning and performance of the business.

During 2007-08, a major exercise, the new organisational arrangements Project, was undertaken involving more fundamental changes designed to meet the requirements for more efficient operations, and to provide a sustainable basis for the business in the future.

Efficiency changes have been targeted right across the

organisation, and include both IPART regulated and unregulated activities.

The reform strategy included an extensive review of the full organisational structure and improvements to business focus, procedures and information systems.

The review included consultation with employees, CSCs, regulators and other stakeholders, analysis of work functions in the light of current organisational objectives and regulatory requirements, and improvements to technology and business processes.

Methods of reducing the cost of dam safety surveillance without increasing risks have been explored with the dam safety regulator and discussions are continuing.

Identify emerging trends and identify strategies

Key strategic themes adopted by State Water's Board are:

Business Basics

Getting the fundamental utility business functions operating effectively and in accordance with our Operating Licence. Includes compliance with regulatory and licence requirements, timely, accurate reporting, billing and revenue collection, accounting policies and financial systems.

These strategies are supported by the culture change program aimed at replacing the long-standing public service culture which operates on the basis of tradition and custom, with a commercial utility culture based on compliance as a given and building value for our shareholders and service quality for our customers through innovation.

The key strategies have been incorporated into State Water's 2007-08 Business Plan.

The key strategic themes have been incorporated into State Water's 2008-2012 Corporate Plan and 2008-09 Business Plan.

Cost Structure Reform

Step shift in the cost structure to reduce operating expenditure by around 14% over the next two years in accordance with the 2006 IPART determination while ensuring responsible operations and asset management.

Dam Safety

Approving and delivering a responsible dam safety program to bring our most at-risk dams to an acceptable level of security.

Business Improvement

Upgrading the way State Water conducts business to conserve water, protect the environment, respond rapidly to customers, cooperate with government, and build value in the business.



Working towards tomorrow 2008-12

Maximise the delivered water available from each megalitre flowing into the regulated river system

We will:

- Confirm adequate funding from the Commonwealth Water for the Future fund and deliver technologies to improve methods of measurement, metering and remote sensing
- Continue to improve the efficiency of water delivery into and from our storages and rivers, recognising the impact of climate change.

How we will achieve our goals:

- Upgrade customer metering sites
- Reduce theft of water by implementing appropriate compliance procedures
- Convert savings from water efficiency measures into adaptive environmental water licences
- Implement water efficiency projects to reduce transmission losses and optimise delivery accuracy
- Identify alternative water supplies for inefficient systems, particularly in drought sequences.



Prime Minister Kevin Rudd and CEO George Warne at Hume Dam.



Supportive Stakeholders

Develop and maintain memoranda of understanding

As required by the Operating Licence, State Water has a Memoranda of Understanding (MoU) with:

- Department of Water and Energy (DWE)
- Department of Primary Industries (DPI)
- Department of Environmental and Climate Change (DECC).

These MoU form the basis of State Water's relationship with key NSW Government agencies, and help define best practice in environmental management and support cooperative relationships between agencies.

Some activities and initiatives undertaken include:

- State Water has continued to work with DPI through the MoU process to develop a prioritisation tool which will aid the identification of priority structures within each valley.
- During 2007-08, State Water started the development of valley specific fish passage programs to improve strategic planning. The priority listing of State Water weirs is a key information tool feeding into the development of these programs.
- State Water and DPI have been working closely under the Bring Back the Fish Program to investigate the potential removal of three unregulated weirs on the north coast. Once the appropriate environmental approvals have been gained, it is proposed to remove these weirs during 2008-09.
- During 2007-08, State Water developed a Total Asset Management Plan (TAMP) for unregulated structures which have come under State Water's control via the Transfer Vesting Order. The TAMP has identified structures which have the potential to be removed, those that will be maintained and those that require fish passage works.
- State Water and DECC are members of the Cold Water Pollution Interagency Group (CWPIAG) which aims to minimise the impact of cold water pollution (CWP) from bulk water supply structures, including State Water's storages. As part of its contribution, State Water is developing operating protocols for dams with multi-level offtakes, starting with Glenbawn Dam. The further development of these protocols has been included in the proposed State Water Work Approvals for dams which are currently being developed with the DWE, in consultation with State Water.

Increase shareholder understanding of revenue volatility and state water

Current scientific predictions indicate that Australia is heading into a period of increasing climatic variability. If this is the case, the consequences for State Water's revenue volatility could be severe.

Water supply in the past decade has varied from a peak of 7,661GL in 1996-97 to a new historic low of 1,123GL in 2007-08. As prices move towards a 60:40 fixed to variable tariff mix, revenue fluctuations will amplify.

State Water has continued to use Statement of Corporate Intent (SCI) negotiations to improve shareholders' understanding of potential revenue variations.

Scenario analysis undertaken for the 2007-08 SCI modelled the impact of various reductions in average water deliveries, based on the outcomes of the available CSIRO Sustainable Yields Reports.

Statement of corporate intent

State Water entered into a SCI for 2007-08 with its shareholding Ministers as required under the *State Owned Corporations Act 1989*.

The SCI outlines performance targets and reporting requirements to the voting shareholders and Treasury.

State Water submitted the following reports in relation to the 2007-08 SCI:

- Half-yearly report in accordance with the *State Owned Corporations Act 1989*
- September, December, March and June quarterly reports
- Forecast financial statements to Treasury via Treasury Online Electronic System
- Forecast of financial distribution and tax equivalents (budget round forecasts).

The 2007-08 SCI was submitted to the shareholders within the required statutory timeframes.

In addition, State Water met all submission deadlines for the quarterly reports and the half yearly report.

Financial performance in 2007-08

	SCI Target	Actual
Earnings before interest, tax and superannuation adjustments (\$ million)	2.3	1.5
Interest revenue, interest expense and borrowing costs (\$ million)	1.7	1.5
Operating profit before tax and superannuation adjustments (\$ million)	0.6	(0.019)
Dividend (\$ million)	0.4	0.0
Return on assets (%)	0.6	(1.2)
Return on equity (%)	0.1	(1.5)

The table above outlines State Water's financial performance in 2007-08, relative to the financial targets in its 2007-08 SCI.

State Water made a net loss of \$5.1 million due primarily to negative movement in the deferred superannuation fund of \$7.3 million.

Redundancy expenses associated with the implementation of the restructure amounted to \$3.5 million and were also unbudgeted for in the SCI targets.

The negative superannuation fund movement and the associated taxation benefit is excluded from the calculation of dividends.

Non-financial performance

The non-financial performance indicators in the 2007-08 SCI were adopted from State Water's 2005-08 Operating Licence.

In late 2008 IPART will audit State Water's performance in 2007-08 against the requirements of the Operating Licence.

State Water's performance against each of the Corporate Plan targets is provided in detail in each chapter of this report.

Maintaining relationships with regulators and shareholders

In 2007-08, State Water continued monthly meetings with shareholder representatives to brief them on key issues relating to State Water and its performance against the financial targets in the SCI.

Issues discussed included:

- Development and implementation of the new organisational arrangements
- The impact of the ongoing drought and
- The Commonwealth Government's Water for the Future Program.

State Water's primary natural resource regulator is DWE.

State Water and DWE worked together on a wide range of issues during 2007-08.

These included the development of a compliance protocol and drought management planning.

In addition, State Water worked in partnership with DWE to develop the Water Supply Works Approval conditions, which are required under the *Water Management Act 2000*.

As a result of this work, the first works approval, for the Namoi valley, is now in place.

Also during 2007-08, State Water's CEO continued to meet bi-monthly with the Director-General of DWE to promote a more cooperative relationship and ensure a coordinated approach on issues affecting both organisations.

State Water worked closely with DPI-Fisheries this year to gain approval for more than 20 programs under the *Fisheries Management Act 1994*.

These included monitoring of new fish ways, fish rescues, dewatering exercises and weir repairs.

State Water and DPI also held a workshop to scope a ten year valley specific fish passage program.

Recognising the increased importance of the environment as a customer, during 2007-08 State Water invited representatives from the DECC to become a member of each of the valley-based CSCs.

NSW state plan

The NSW Government has begun implementing a 10-year State Plan. The plan outlines key budget processes, areas of accountability and reporting requirements for all state government activities.

The plan sets clear priorities for actions, with challenging targets for improvement to guide decision making and resource allocation. In addition, it sets out how agencies will work to deliver the targets, with fundamental reforms to government accountability and reporting.

State Water is involved in achieving priorities and targets outlined in the State Plan, through a number of programs and initiatives.

Projects that State Water is currently involved with which contribute to priorities and targets within the plan include:

- Consultation with the CSCs and Community Reference Panels (Priority R4)
- Customer satisfaction survey and strategy (Priority S8)
- Involvement in development of national water metering standards (Priority E1)
- Electricity audits, in keeping with our Energy Management Plan targets (Priority E2)
- Hydro electricity generation on our storages (Priority E2)
- Fish passage development and water quality monitoring (Priority E4).



Glennies Creek Dam Officer in Charge, Fred Turner.

Case study

EWON visits macquarie-cudgegong valley

A delegation from the state's Energy and Water Ombudsman inspected irrigation facilities in and around Warren and Burrendong Dam as part of a two-day familiarisation tour of the Macquarie-Cudgegong valley in late April 2008.

The six-member group gained first-hand knowledge of irrigation infrastructure and operations in the Warren area on Tuesday (29 April) before touring Burrendong Dam near Wellington on Wednesday (30 April).

EWON is an industry-funded body that works to resolve disputes between some water providers and all energy utilities, and their customers.

The EWON group visited weirs at Warren and nearby Gunningbar including the Gunningbar regulator and fishway, as well as on-farm extraction pumps.

At Burrendong Dam the delegation received a behind-the-scenes tour of operations which included the facility's spillway, intake tower and river outlet.

CEO George Warne said the insight gained into State Water's role and the irrigation industry generally, will further assist EWON mediate in disputes involving water consumers and providers.

"State Water's policy is to resolve disputes personally at a local level but for that small percentage of complaints that find their way to EWON it is essential the investigators have a thorough understanding of the irrigation industry and water delivery practices and policies," he said.

"From the customers' perspective a well-informed working relationship between State Water and EWON greatly improves the process of handling complaints and resolving disputes as they arise.

"I am pleased to report that only a fraction of complaints involving State Water and its operations ever result in EWON's involvement.

"I believe that stems from the priority we place on being accessible to our customers and working promptly to address their issues wherever possible.

"EWON is, however, a last resort for that minority of disputes where an agreeable settlement cannot be achieved at a local level."



Gunningbar fishway.



Burrinjuck Dam Officer in Charge, Ian Hill.



Great People

Develop and implement the workforce plan

State Water has developed a Workforce Plan aimed at achieving sustained organisational performance and accountability through the development of a capable workforce, appropriate to the needs of the corporation, both now and into the future.

State Water faces a number of unique challenges associated with:

- supporting operations in regional NSW
- securing and retaining professional engineers and experienced supervisors and operators under tight labour market conditions
- developing a commercial culture to build business growth and increase customer focus and satisfaction, while still supporting and responding to the regulatory demands of a State Owned Corporation.

State Water requires great people to meet the current requirements and demands of the organisation.

The plan outlines the integrated strategies needed to build workforce capability to respond to significant ongoing shortages in the labour market, the ageing workforce and ongoing organisational change.

Development and implementation of a workforce plan is identified in the organisation's corporate plan as critical to the success of State Water. The plan recognises that State Water requires an adaptive and effective workforce.

Integrated strategies will be implemented that build workforce capability to respond to existing demands, which will allow the organisation to meet future challenges.

The plan outlines three integrated strategies that build organisational capability:

- developing the organisation
- developing the current workforce
- developing the future workforce.

This year's focus has been on developing the organisation and has involved a number of strategies:

- Benchmarking State Water human resources metrics against other organisations at a national level
- Developing and implementing a new organisational structure
- Enhancing recruitment and selection process
- Negotiating new employment agreement(s)
- Identifying current and future skills requirements
- Developing a succession planning process
- Developing a two-year Equal Employment Opportunity Management Plan
- Continuing with the ongoing improvements to OH&S and injury management systems.

Strategies included in the plan are consistent with workforce planning requirements outlined in documentation from the Australian Public Service Commission and the Australian National Audit Office.

State Water understands that the workforce planning process is not a stand alone plan or process. Rather, the plan is integrated with business processes, incorporates an analysis of State Water's current and possible future operating contexts and, includes ongoing monitoring of the environment, workforce issues and organisational strategies.

The workforce plan attempts to formalise and structure the broad range of initiatives and strategies. All employees can now be more aware of the interdependence of these strategies and their natural and necessary link to building State Water's workforce capability.

Implement employee survey recommendations

State Water values employee involvement in the development of the business and strives to maintain a high level of engagement.

An employee survey was undertaken in July 2007 to assist in prioritising our key focus areas for the future.

The survey included 46 questions that for analysis were grouped into four sections:

- Kinds of people (employee behaviour)
- Where is State Water going? (strategic alignment)
- Values for effective organisation
- Follow-up questions from previous survey.

Of the 346 employees who were issued with the survey, 229 (66%) responded. This was an increase of 2.7% in the response rate in comparison to the 2005 employee survey.

Another positive result from the survey was an increase in the overall satisfaction index, moving from 66% in 2005 to 69% in 2007.

Additionally, results from the 2007 survey indicate that employees believe communication has been the area of greatest improvement along with recognition of employees and listening to employee views.

From the 2007 employee survey results a number of strategies have been developed to improve communication, leadership, learning and development and policies.

Strategies include:

- Introduction of video conferencing
- Increasing the number of branch and toolbox meetings
- Clarifying misconceptions about employment conditions
- Finalising the executive structure
- Cost Structure Reform process
- Executive coaching
- Revamped motor vehicle policy.

Improve individual accountability and performance

State Water must develop an effective corporate culture to make a successful transformation from government department to commercial business.

The Culture Development Framework and associated program was developed to create a corporate culture where all employees operate in accordance with State Water's strategic direction, thereby achieving performance through people.

The program focused on five key factors: leadership, strategic direction, technology and systems, decision making and relationships.

Senior managers participated in an Emotional Intelligence Development Program to improve key areas of leadership.

The program began with a 360-degree feedback process and continued throughout the year with a series of peer group coaching sessions.

Thirty two managers used 360-degree surveys to seek feedback from a range of people on their commitment to State Water values and their management competence.

The information collected was used to identify and communicate strengths and development needs along with

creating and implementing practical and effective personal development plans. The 360-degree process has created a culture more open to giving and receiving feedback and continuous improvement.

The program, which was completed in December 2007, will be rolled out to middle management following the implementation of new organisational arrangements.

An on-line employee planning and review (EPR) process was introduced to middle managers. The process, which focuses on State Water's strategic direction and achieving business objectives.

The EPR process promotes individual development and succession planning through employee initiated development plans.

Feedback from the process has been positive, with employees identifying key work and development priorities, and having a clearer understanding of how their role contributes to achieving corporate strategies.

The EPR process will be rolled out to other employees in 2008-09 once the new organisational arrangements have been confirmed.

Provide a safe, healthy and productive work environment

Health and safety is State Water's number one priority. State Water's safety performance continued to improve during 2007-08.

The focus for 2007-08 has been on improving safety systems, consultation, hazard identification and implementing OHS audit system.

State Water has been working to address five targets from the NSW Government Public Sector OHS and Injury Management Strategy 2005-2012, which include:

- injury prevention
- reduction in the cost and duration of injuries
- provision of OHS risk management training to improve agency knowledge and capability with respect to risk management and processes
- injury management for suitable duties.

Injury management program

Claims reported to insurance company Allianz in 2007-08 are summarised below:

- Twenty-four notifications
- Ten Lost Time Injuries (LTI)
- Seven notifications of incidents with no cost occurring
- Two denied claims

The total cost of claims for 2007-08 was \$28,075.

Lost time injury frequency rate

Encouraging hazards and injuries to be reported has decreased State Water's Lost Time Injury Frequency Rate from 2006-07 to 2007-08 and has significantly reduced the number of days lost and the average cost of injuries.

The total days lost for 2007-08 was 56. In comparison to the 2006-07 figure of 15 injuries and 160 days, this is a reduction in lost days of 65%.

State Water has focused on safety committee consultation, hazard management and risk assessment processes, further developing OHS policy, procedures and safety compliance audit techniques.

The OHS focus for 2008-09 is to:

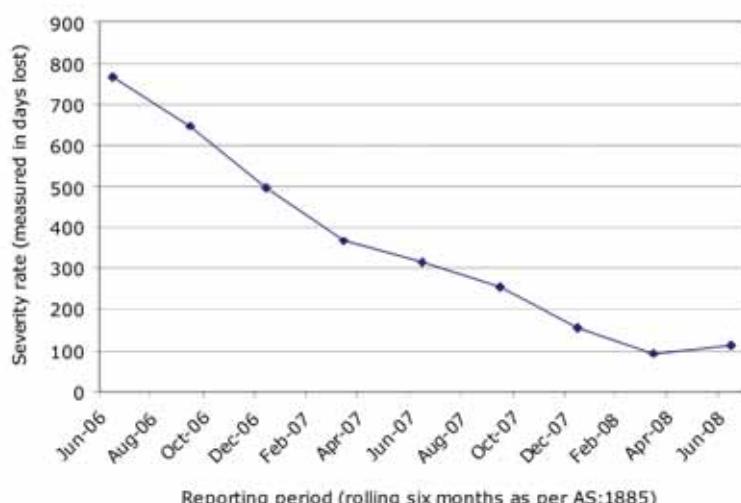
- Improve health and safety procedures in conjunction with the development and provision of relevant safety training.
- Develop health and safety positive performance indicators and improve our safety and risk management systems.

- Continue to carry out both external and internal OHS compliance audits to provide lead indicators on the OHS Corporate Management Systems performance.
- Restructure the Safety Committees in-line with the overall restructure of State Water.

NSW government working together targets:

No	Working together target	Target for June 30 2008	Achieved at 30 June 2008
1	20% reduction in LTIs	3.3%	3.2%
2	20% reduction in employees off work at 8, 12, 26 weeks after injury	5.6%	0%
3	15% reduction in average cost of claims	\$7,200	\$2,160
4	10% improvement in employees participating in suitable duties when prescribed by nominated treating doctor	100%	100%
5	90% of managers trained in risk and injury management	90%	91.2%

Injury severity rate



Note: Injury Severity Rate =
$$\frac{\text{Number of working days lost (in a period)}}{\text{Number of hours worked (in the period)}} \times 1,000,000$$

Develop and motivate employees

Roadshow sessions

Roadshow information sessions continued in 2007-08, as an initiative of the 2005 employee survey.

The roadshow program is aimed at improving internal communications and providing consistency in delivering messages to employees.

The program is conducted twice a year in each area, with the CEO attending one session and speaking with employees one on one and listening to their concerns while gaining local input from branch managers.

New wave/young professionals

New Wave is an initiative to help address the ageing workforce of State Water and the associated impacts this has on the needs of younger people.

The initiative helps State Water attract and retain the next generation. This is important to ensure the organisation's ongoing viability.

New Wave provides a range of diverse development opportunities for its members along with exposure to all facets of the business.

New Wave provides an organised forum for younger employees to voice their opinions as well as an exchange point where the more experienced State Water people can pass on their extensive knowledge.

The CEO invited New Wave members to the 2007 Institute of Public Administration Australia CEO and Young Professionals Breakfast Forum. State Water's young professionals had direct access to the CEO and the opportunity to voice their opinions and receive feedback about their ideas on change.

Technical improvement groups

Encouraging innovation and providing technical expertise and guidance is the objective of Technical Improvement Groups (TIGs), which are part of State Water's knowledge bank initiative.

There are currently nine active TIGs:

- Lifting equipment and scaffolding
- Corrosion control
- Mechanical equipment
- Major civil structures - dams, weirs, bridges
- Emergency operations and standby equipment
- Cement and concrete
- Environment and heritage management
- Contracts and contract management
- Operations and maintenance manuals.

These groups engage talented State Water employees across all areas of operation.

Negotiating commercial conditions

State Water and all three unions (Public Service Association of NSW; Association of Professional Engineers, Scientists and Managers, Australia; and the Australian Workers' Union) have been negotiating in good faith during State Water's restructure process in 2007-08.

Agreement was reached on a 12-month rollover of current conditions effective 1 July 2008. This has provided additional time to negotiate terms and conditions that will support State Water's business needs following the restructure. Negotiations are on schedule to have the new agreement registered and effective by 1 July 2009.

Negotiations are progressing towards a single State Water Agreement with all three unions which will provide consistent conditions for all employees.

Discussions have focused on streamlining current conditions and distinguishing State Water as a State Owned Corporation rather than a government department.

Agreement has been reached agreement on a single classification structure framework to form part of the next three year agreement. This is a notable achievement in reducing the number of pay points from more than 300 to 45 in the new nine grade classification structure.

No time was lost to industrial disputes through the year.

State Plan Priority - P3

More people participating in education and training throughout their life

State Water is committed to continuous education and training to drive productivity and is currently investigating ways to retain the skills and services of its ageing workforce.

A number of initiatives have been implemented to improve State Water's succession capability, these include encouraging employees to take up relieving roles, establishing a knowledge library and fostering a young persons' group, which encourages knowledge transfer through the establishment of a mentoring program.

A Workforce Plan has been introduced. It recognises that State Water requires a capable, available, adaptive and effective workforce to meet the current and future requirements and demands of the organisation.

The plan outlines the necessary integrated strategies to build workforce capability to respond to significant on-going shortages in the labour market, the ageing of State Water's workforce and ongoing organisational change. The plan also positions State Water to more effectively meet the challenges of the future.

Create a more commercial culture

State Water has implemented many strategies which are supported by a culture change program aimed at replacing long-standing public service cultures of operating on the basis of tradition and custom and replacing it with a commercial utility culture, based on compliance as a given and on building value for shareholders and service quality for customers through innovation.

A key part of the program is developing systems and processes to move the organisation forward and develop the leadership skills of managers.

State Water continues to develop its corporate culture through corporate planning, employee development and the negotiation of a new employment agreement.

Turnover

The turnover rate for State Water of 7.9% is 5.7 percentage points lower than the Australian average of 13.6%.

State Water's turnover is 56% of the national average.

The separation rate for State Water of 4% is 3.6 percentage points lower than the Australian average of 7.6%.

Corporatisation had a significant impact on the arrivals at State Water with expansion needed to provide corporate services that had previously been provided by the former Department of Infrastructure, Planning and Natural Resources.

Sick leave

The amount of sick leave taken per employee has remained below the Australian average.

State Water's average sick leave ratio at 5.4% is lower than the average of 5.7% for other Australian utility organisations.

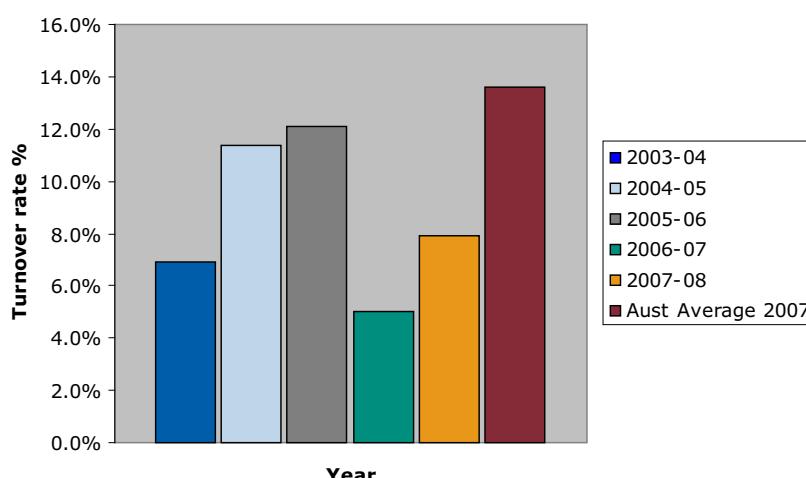
Changes in the number of sick leave days taken for 2007-08 are indicative of an organisation going through a significant restructure process.

Similar results have been noted in research where there is a correlation between sick leave rates and the perception of the impact of change.

Number of employees by branch

Branch	Total
North Area Includes Border, Gwydir, Namoi, Barwon and Peel River valleys	54
Central Area Includes Macquarie-Cudgegong, Lachlan and Upper Darling River valleys	54
South Area Includes Murrumbidgee, Murray-Lower Darling River valleys and the Menindee storages	81
Coastal Area Includes North Coast, Hunter, Sydney, Snowy and South Coast River valleys	23
Strategic Asset Services	35
Technical Services	5
Information and Operations	5
Corporate Services	38
Strategic Policy and Compliance	8
Total	
2007-08	303
2006-07	349
2005-06	359
2004-05	320
2003-04	253

Employee turnover



Employee sick leave

Year	Sick days	Equivalent full time staff
2003-04	970	253
2004-05	1,195	287
2005-06	1,487	312
2006-07	1,008	296.5
2007-08	1,645	303



Working towards tomorrow 2008-12

Achieve our strategic objectives through capable, committed, safe and skilled workforce

We will:

- Meet the NSW Working Together Targets for OH&S by putting safety first
- Provide employees with the tools to effectively and efficiently deliver services
- Develop a culture that allows us to build a team of skilled and dedicated people consistent with a modern utility business

How we will achieve our goals:

- Ensure employees complete risk assessments and safe work methods statements consistent with modern organisations
- Remove work practices, materials and equipment that do not meet current standards and practices
- Promote an active culture of risk reduction, including reporting of near misses and incidents
- Complete a gap-analysis to identify formal training requirements, including safety training
- Ensure a formal internal training program is developed for all new corporate information systems
- Complete the current IPART-driven restructure of the organisation and consider further organisational improvements
- Implement new single State Water Enterprise Agreement
- Connect people better through communication technologies and a Sydney office that is closer to the airport
- Continue to improve the productivity of our workforce and share the benefits with our employees

Case study

Young professionals breakfast

Four members of New Wave along with the Acting CEO Geoff Borneman attended the sixth annual IPAA NSW CEO and Young Professionals Breakfast in 2007.

The theme for the event was Climate for Change, with a number of speakers attending the breakfast forum.

According to New Wave member, Kathryn Cabrera the breakfast was a fantastic opportunity to network with other young people (including the CEOs) from a number of different companies.

"The keynote speaker, NRG International CEO Nic Frances, captured the attention of everyone at the event," she said.

"Nic had faced many challenges as a social policy maker for the Brotherhood of Saint Laurence, a minister in an Anglican church and most recently as an entrepreneur tackling the global problem of climate change.

Ms Cabrera said Mark Wooldridge from the Ministry of Transport was another insightful speaker.

"The CEO and Young Professionals' Breakfast was a great opportunity for younger Public Sector employees to network with each other and to exchange ideas about the issues we all face in the workplace." – Armen Dervisevic

"The CEO and Young Professionals' Breakfast was a valuable opportunity to network with like-minded employees from a range of different organisations in an informal setting." – Steven Hare



New wave members: Lisa Tandy, Jocelyn Karsten, Tanya Savage and Steven Hare.



Tributary into Blowering Dam.



Enhanced Environment

Environment management planning

State Water's revised Environment Management Plan (EMP) 2006-2011 came into effect on 1 July 2007.

The plan was revised after a 12-month review, in line with the Operating Licence and in consultation with our regulators and stakeholders.

Feedback from the consultation process was supportive of the progress and implementation of activities to date. Based on this, minor changes were made to the revised plan, allowing for the continuation of initiatives already underway.

Two new environmental projects begun in 2007-08 under the EMP are the Heritage Capacity Building Project and the Development of Environmental Assessment Procedures Project. These will support State Water's capacity in environmental management.

A number of EMP targets have been completed this financial year, including:

- Promotion and distribution of the revised EMP
- Full compliance of the 2006-07 environmental performance report to IPART
- Flow, timing and channel capacity targets were met in WSPs.
- Information was provided to Environmental Flows Reference Groups
- Monitoring of storages for water quality continued, including monitoring and response in accordance with the Regional Algal Contingency Plans
- Storage water quality data from 2000 to 2007 has been statistically analysed and the report drafted
- The development of a 10-year valley specific fish program was instigated

- Documentation of the full extent of water quality monitoring activities was finalised, providing key foundation information to inform future revisions to enhance the program's effectiveness and efficiency
- An Energy and Waste Reduction Campaign was introduced throughout the organisation to implement strategies in each office to reduce energy use and waste, to cut costs and benefit the environment.
- Directions for the development of a cultural heritage policy and strategy were formulated
- The Heritage Capacity Building Project developed directions and priorities for a three-year heritage program to encapsulate EMP targets and set a staged approach to advancing heritage management and compliance
- A set of tailored environmental assessment procedures for State Water has been drafted and tested against a range of project scenarios.

Increased employee awareness and education

State Water continued to promote environmental initiatives across the business to increase employee awareness and education about the organisation's environmental responsibilities and share innovative ideas and best practices this year.

Key initiatives include:

- Continuation of the Environmental Happenings column in the employee newsletter, *Waterfront*
- Development of an environment and heritage intranet page
- Regular meetings of the Environment and Heritage Technical Improvement Group
- Increased relationship building with the Department of Primary Industries (DPI).

Environmental research, planning and investigative projects

Cold water pollution

In 2007-08, State Water continued as a key representative on the Cold Water Pollution Inter-Agency Group (CWPIAG) which oversees the strategic implementation of the NSW Cold Water Pollution (CWP) Strategy.

The CWPIAG met three times and as part of its contribution to the IAG, State Water is developing operating protocols for dams with multi-level offtakes, starting with Glenbawn Dam.

The further development of these protocols has been included in the proposed State Water Works Approvals for dams which are currently being developed with DWE, in consultation with State Water.

In addition, as agreed with the CWPIAG, State Water sought community service obligation funding in the 2008-09 State Budget for CWP investigations. Although this bid was supported by the Minister for Water, due to fiscal constraints, it did not receive approval for funding in the State Budget.

Water quality monitoring

State Water monitors stored water in all major reservoirs in line with EMP requirements.

Water sampling happens monthly, unless circumstances, such as during blue-green algal outbreaks or when a reservoir turns over during autumn require more frequent sampling.

The parameters measured include:

- depth, dissolved oxygen, temperature and electrical conductivity
- total nitrogen, total phosphorus, turbidity, pH and electrical conductivity
- major ions
- algae.

Discussions continued with DWE over their drafting of Works Approval conditions which are required under the *Water Management Act 2000*.

These discussions have concluded that the water quality monitoring requirements will reflect water temperature requirements of the NSW CWP Strategy.

Foreshore lease management program

During 2007-08, foreshores under State Water management were leased at Lostock, Glennies Creek, Glenbawn, Keepit, Split Rock and Chaffey Dams.

State Water included in all leases a requirement for the lessees to put in place a property management plan which details the lessees' commitment to funding activities under that plan, such as maintaining ground cover to prevent erosion, maintaining infrastructure such as fences, controlling noxious weeds and feral animals, fire control programs and compliance with any native vegetation requirements.

State Water has also contracted an independent agent to ensure that lessees are meeting their commitments. All dams have had at least one report by the agent, with follow-up action in some cases.

Recycle and environmental awareness program

An Energy and Waste Reduction Campaign titled the Recycle and Environmental Awareness Program was introduced throughout the organisation to implement strategies in each office to reduce energy use and waste, to cut costs and benefit the environment.

State Water is striving to meet a series of benchmarks concerning fuel consumption, vehicle use, conserving resources such as paper and power, sourcing green power, recycling organic and building materials, reducing office heating costs and introducing hybrid and more economical vehicles.

The campaign features an inter-office competition, periodic email advice and reminders, recognising significant achievements and appointing specific employees to encourage participation.

State Water is determined to set a leading example for its customers, employees and the community, to use limited and valuable resources responsibly, and be a good corporate citizens generally.

North coast weir removal project

State Water and DPI have been working together under the Bring Back the Fish Program to investigate the potential removal of three unregulated, redundant weirs on the north coast, thereby improving fish passage and restoring the creeks to a more natural flow.

Once the appropriate environmental approvals have been gained, a process to remove the weirs will begin.

Heritage management

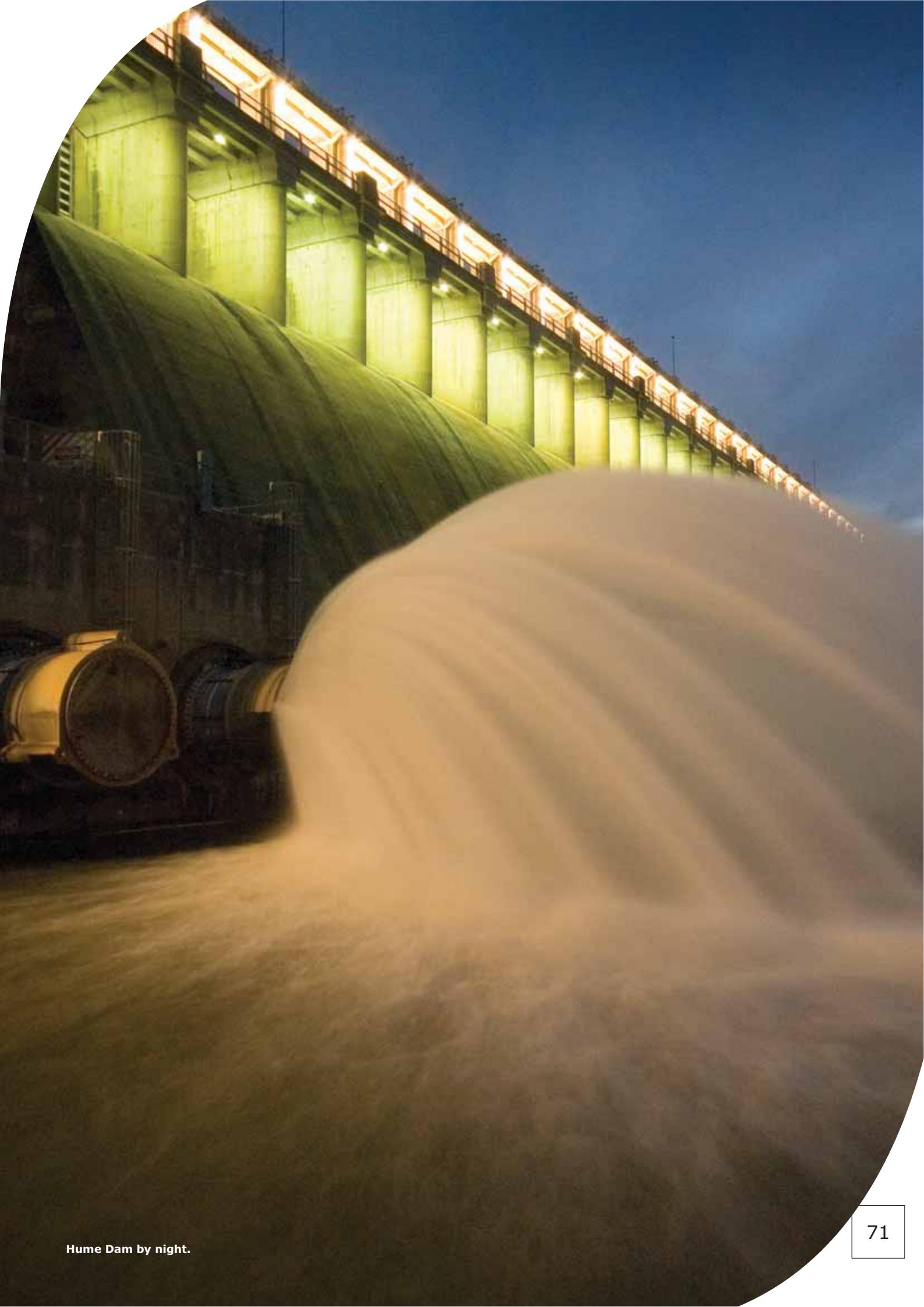
The Heritage Capacity Building Project began in 2007-08 to develop directions and priorities for a three-year heritage program.

This program will incorporate strategies and targets for EMP objective nine - develop a cultural heritage strategy and policy, and provide a staged approach to advancing State Water's capacity in heritage management and compliance.

During the 2007-08 year, State Water carried out an aboriginal heritage field survey and test excavations for the Lake Brewster Water Efficiency Project as part of the Statement of Environmental Effects (SEE) and subsequent investigation process for construction of the project works.

The National Parks and Wildlife Service section of DECC provided feedback on the SEE.

State Water has a Lake Brewster Heritage Management Plan, for which DECC is the approving body. This plan outlines key actions to be addressed throughout the Lake Brewster Efficiency Project including mitigation measures and onsite inspections by the Local Aboriginal Land Council.



Hume Dam by night.



The Murrumbidgee River near Gogeldrie Weir.

Environmental initiatives

Central area

State Water delivered the first environmental flows purchased through the RiverBank scheme in the Macquarie-Cudgegong valley.

Nearly 8,700ML of environmental water was delivered to the Macquarie Marshes allowing water levels to be maintained in the northern nature reserve long enough to allow the waterbirds to breed successfully.

State Water was involved in the NSW Wetland Recovery and NSW Rivers Environmental Restoration Programs by providing technical advice on the development of a fishway at Marebone Weir, clearing willows in the lower Macquarie River, managing environmental flows provided by RiverBank and involvement in establishing a water use plan for environmental access water licences in the Lachlan and the Macquarie-Cudgegong valleys.

State Water continues to provide advice and operational information to the Macquarie Environmental Flows Reference Group which determines when and how environmental water will be used within the system.

In 2007-08 State Water and DECC finalised operating principles and protocols for the management of the North Marsh Bypass Channel. These protocols will improve communication and water delivery

efficiencies by increasing consultation and improving decision making processes.

State Water also completed works on the North Marsh Bypass Channel to improve efficiency and delivery of stock and domestic flows.

Construction work began on the Lake Brewster Water Quality and Efficiency Project after receiving development consent from Carrathool Shire Council and developing detailed construction environment management plans.

As part of its involvement in the NSW Rivers Environmental Restoration Program, State Water in conjunction with DPI developed draft operating protocols for proposed Muggabah and Merrimajeel regulators.

State Water has become heavily involved in the carp eradication program in the Lachlan valley, working with DPI to trial a carp separation cage on the Island Creek fishway. The design of the cage has been finalised, and it is hoped the trial will start in 2008-09.

The Island Creek Fishway was commissioned in 2006-07, however due to drought conditions in the Lachlan valley, the fishway was not monitored in 2007-08. Initial monitoring to confirm the performance of the fishway will occur in 2008-09.

State Water has also progressed designs on a fish ladder planned for Lake Cargelligo.

Coastal area

State Water continued its involvement in the Hunter River Salinity Trading Scheme as a subcontractor to DECC who is the scheme regulator. State Water undertook modelling to calculate allowable salt loads in the river, successfully managed several events through the year, completed an upgrade of the salt model, and negotiated a new seven-day-a-week agreement for 2008-09.

A draft agreement was formed between DECC and State Water to develop a voluntary conservation agreement on Glenbawn Dam foreshore land which has been identified as a high conservation area and contains endangered flora.

Small operating valves on four coastal dams (Lostock, Glennies Creek, Toonumbar and Brogo) were installed to allow for small releases to maintain riparian and environmental flows.

State Water mitigated the downstream impacts of toxic algae in Lostock Dam by altering the spilling regime. Valve releases were made to contain the toxic bloom within the storage.



State Water worked closely with DPI on a number of projects including managing water releases at Toonumbar Dam to mitigate the impacts of fish kills and undertaking works downstream of Brogo Dam to improve native bass movement.

Further investigations, including environmental assessments, were also undertaken to determine the viability of removing a number of redundant weirs on the north and south coast.

North area

State Water continued to provide advice and information on water delivery requirements to the Environmental Contingency Allowance (ECA) Operations Advisory Committee as well as advice and education on supplementary events to customers in the valley.

State Water worked closely with customers and DECC to determine delivery dates for block releases to deliver small amounts of remaining allocation as well as environmental water to reduce conveyance loss and maximise the amount of water available for delivery.

Specifically, State Water developed a release schedule with the Environmental Contingency Allowance for the Gwydir and Gingham wetlands that coincided with block releases for irrigation.

State Water consulted with DECC to develop block release dates for water

delivery in the Namoi, Gwydir and Border rivers throughout the summer irrigation period.

A levels survey and hydraulic modelling was undertaken to improve flows in the Gunidgera-Pian Creek systems to improve water delivery efficiencies.

Desilting works were also completed in consultation with DPI upstream of the lower Gwydir offtake and at the Tyreel regulator offtake to improve efficiencies through these structures.

South area

A vertical slot fishway was completed at Colligen Creek opening up more than 157km of river to the free passage of native fish.

Due to continued drought conditions the fishway was not operational and performance monitoring will not begin until 2008-09.

State Water worked in conjunction with DPI on a number of fish relocation and fish habitat management events during 2007-08 including:

- Relocating fish that had become trapped in an isolated pond in preparation for the upgrade works at Colligen Creek.
- Relocating 18,000 native fish into the Murray River from the lock chamber at Lock 10 during refurbishment and de-watering works.
- Monitoring downstream areas during the trialling of aqua dams

during the proposed upgrade of Yanco Weir to ensure low-flow conditions did not impact on downstream native fish habitat.

State Water provided advice to DECC on river levels in the Edward River for a project to replace drop boards with aluminium gates at the Dumudgery offtake.

Murrumbidgee River operators worked closely with DECC to ensure water was available for the endangered Southern Bell Frog during its critical breeding season in the Lowbidgee floodplains.

After consultation with DPI, DWE and MDBC, some 30GL of water was released for Wakool River and the Merran creek system to provide stock, domestic and environmental benefit from December 2007 to January 2008.

This release improved water quality and provided water for pools that offer drought refuge for native fish and other aquatic species.

Additional benefits of the release include riparian flows for hundreds of kilometres of the river and creek system.

The release comprised 6GL of environmental water under the Living Murray initiative and 26GL of NSW environmental water.

Continue relationships with regulators

State Water worked closely with key environmental regulators in the past 12 months as part of the review and implementation of the EMP.

Department of primary industries (DPI)

From the Memoranda of Understanding (MoU), State Water and DPI have continued to build on their effective relationship.

State Water employees have regular contact with the DPI Liaison Officer increasing the awareness of fish habitat and protection issues throughout the organisation.

In 2007-08 State Water and DPI:

- Developed a revised fishway monitoring protocol for new fishways
- Coordinated the relocation of native fish during works projects
- Constructed a new fishway at Colligen Creek
- Progressed designs for a fishway at Lake Cargelligo
- Assessed and consulted on 11 projects to meet State Water's requirements under the *Fisheries Management Act 1994*.

Department of water and energy (DWE)

State Water and DWE worked towards finalising water quality works approval conditions under the *Water Management Act 2000*.

State Water continued to monitor the incidence of blue-green algal outbreaks and undertake communication requirements in accordance with the Regional Algal Contingency Plans which are coordinated by DWE.

Department of planning (DoP)

In 2007-08, the Heritage Office became part of the Department of Planning. State Water attended the State Agency Heritage Forum and participated in the utility heritage forum, both facilitated by the NSW Heritage Office.

State Water and DoP have worked closely in the past financial year to progress the Environmental Assessment of the Keepit Dam Safety Upgrade Project in accordance with Part 3A of the *Environmental Planning and Assessment Act 1979*.

Department of the environment, water, heritage (DEWHA)

A new relationship has been developed with the Commonwealth Department of the Environment, Water, Heritage and Arts, working closely on two projects – the Keepit Dam Safety Upgrade and the upgrade works on the North Marsh Bypass Channel. These projects have increased DEWHA's awareness of State Water and its role.

Department of environment and climate change (DECC)

State Water built on its relationship with DECC during 2007-08 by working on a number of important environmental projects.

State Water continues to play a key role in the program control groups for both the NSW Wetland Recovery Program and the NSW Rivers Environmental Restoration Program.

State Water and DECC have worked closely together to identify impacts and develop mitigation measures for a number of works, including Keepit and Chaffey Dam Upgrade Projects and the North Marsh Bypass Channel.

State plan priority - E4

Better outcomes for native vegetation, biodiversity, land, rivers and coastal waterways

State Water's Environment Management Plan (EMP) outlines the organisation's direction, strategies and targets for environmental management. The EMP focuses on the operations and management of State Water's assets and operations, as well as the broader environmental benefits that are achieved in cooperation with stakeholders.

Key achievements under the EMP this year included:

- Fishways at Warren Weir, Guningbar, Duck and Crooked Creek, Bumboggan Weir, Island Creek and Colligen Creek provided 741km of open free passage for native fish.
- In 2007-08 more than 22ha hectares of aquatic habitat was managed for protection, in accordance with the *Fisheries Management Act 1994*.

Case study

Fish benefit from works at Brogo Dam

Rock excavation works have been carried out on the Brogo River to stop fish from becoming trapped in a pool below the Brogo Dam spillway.

Brogo Dam is situated on the Brogo River, 28 km north-west of Bega.

NSW DPI and State Water jointly did the work, which involved using a 30t excavator to remove large rocks and dig a 10-metre long by two-metre wide channel between the dam spillway pool and the Brogo River, a tributary of the Bega River.

The excavation works were funded by the NSW Recreational Fishing Freshwater Trust and supported by the Far South Coast Bass Stocking Association.

Dr Trevor Daly, NSW DPI-Fisheries Conservation Manager - South Coast, who was onsite to supervise the works, said the new channel would provide ongoing access for fish, primarily Australian bass, to move back and forth between the spillway pool and the main river channel without being trapped as has happened in the past.

"By reducing the risk of fish dying in the spillway pool, the access channel will help maintain the populations of bass in the Brogo River, and also provide increased fishing opportunities for recreational fishers in the Brogo River downstream of the dam," he said.

Dr Daly said in previous years, large numbers of bass attempting to migrate upstream have become stranded in the spillway pool as the water level receded in the river below the Brogo Dam wall.

"To prevent the fish dying from lack of oxygen and overcrowding, NSW DPI-Fisheries officers have undertaken fish rescues using nets and dive gear to catch and move the fish into the main river," he said.

Almost 400 Australian Bass (many weighing one kg or more) were rescued and released safely in October 2007 and more than 1000 were rescued and released safely in October 2005.

In addition to the excavation works, NSW DPI will soon introduce a recreational fishing closure in the area immediately below the dam spillway to protect the aggregations of migrating bass from excessive fishing pressure.

NSW DPI and members of the Far South Coast Bass Stocking Association will also install signs downstream of the Brogo Dam wall to advise fishers of the new closure.





Keepit Dam spillway gantry crane.



Strategic Asset Investment

Capital works summary

State Water is in the process of completing upgrade projects at seven major dams.

These dams complied with the engineering standards of the day when they were built decades ago.

They are also safe for day-to-day operations and can easily handle the worst floods on record.

However, as our ability to predict rainfall and extreme weather patterns and events has developed, new dam safety standards and guidelines for extreme floods and earthquakes have been established.

In order to comply with the current requirements of the NSW Dams Safety Committee (DSC), State Water has embarked on a dam upgrading program.

The Dam Safety Upgrades projects were advanced within program budget and timelines during the 2007-08 financial year.

Chaffey dam upgrade

Environmental assessment of the trial options for the dam safety upgrade and augmentation has been completed. A detailed geotechnical investigation of the proposed works has commenced.

The Community Reference Panel (CRP) Augmentation Sub Committee developed a cost sharing arrangement for the augmentation component of the cost which was agreed to by all stakeholders.

Progress of the augmentation component of the project is dependent on commitment of funds by the Commonwealth and subsequently other stakeholders.

Keepit dam upgrade

Three dam upgrade options were considered in the Environmental Assessment (EA).

State Water has responded to the submissions received from exhibition of the EA which (closed February 2008) and sought project approval from the Department of Planning for the preferred option.

Design and documentation will proceed with the first construction contract scheduled to be let in 2009.

The construction period will be in the order of 30 months – ie construction completed in early 2012.

Split rock dam upgrade

The assessment of spillway adequacy was completed and based on the Revised Generalised Tropical Storm Method.

A consultant was engaged in December 2007 to further develop, optimise and short list the options identified in the preliminary investigation and help State Water to identify a preferred option.

Copeton dam upgrade

The preliminary investigations of the Copeton Dam upgrade have been completed.

This included a risk assessment and development of dam safety upgrade options for extreme floods, detailed geotechnical investigations and preliminary environmental investigations of the short-listed dam upgrade options.

The option refinement and concept design of stage one is in progress.

Burrendong dam upgrade

Investigation activities to finalise the flood security upgrade options are nearing completion.

A multi-criteria assessment matrix was adopted to rank the short listed options, which included major groupings for cost, potential for staging of the works, stakeholder issues, environmental considerations and the constructability of the upgrade.

State Water has worked closely with DPI and various expert consultants to investigate a fish passage and other environmental issues including the viability of the fish passage, raising the crest, potential construction impacts and likely changes to flow regime.

A model of the Burrendong Dam was also created to determine the water flow and other influencing factors.

Wyangala dam upgrade

A consultant has been engaged to prepare a detailed design and construction document to raise the existing radial gates above the current position to pass more water during extreme flood.

In parallel with this engagement, another consultant has been engaged to develop a detailed concept design of crest raising using a parapet wall, as part of a staged upgrade option.

Blowering dam upgrade

The business case for the proposed stage one works has been endorsed by the State Water Board and NSW Treasury. The project has also been independently reviewed and supported by the Gateway Review Team.

Detailed design for stage one works is in progress, and the draft contract documents and drawings are being prepared and reviewed.

The pre-tendering processes have started.

Following finalisation of the contract documents, tenders will be invited from prospective tenderers, and construction for the upgrade is expected to start in 2008-09.

A similar study was made of possible spillway upgrade options. Detailed studies of the possible spillway options will begin in late 2008.

Outcomes from the investigations have been peer reviewed by the Hume Dam Expert Review Panel.

State Water undertakes this work under contract with MDBC.

Lock 15 euston weir

Investigations have continued into the integrity of the lock and weir at Lock 15 at Euston.

The work also includes considering the potential for raising the upstream pool level to improve the mid-river storage capacity for the Murray River.

State plan priority - E2

A reliable electricity supply with increased use of renewable energy

The production of more than 36,000t of greenhouse gas emissions was eliminated during 2007-08 due to the operation of hydro-electric power stations at State Water managed dams.

There are now hydro-electric power stations on 10 of State Water's 20 large dam sites. These have a potential generation capacity of some 249MW of power. Hydro-power stations feed electricity into the NSW power grid, reducing the dependency on environmentally unfriendly sources of power generation.

Hydro power is an environmentally beneficial method of power generation which uses kinetic energy that would otherwise be lost from water discharges.

Dissipation of energy through hydro generation minimises the effects of scouring caused by high energy water discharge from dams and electrical transmission losses are minimised when power can be utilised locally and does not need to be transported over long distances.

Water is not released from dams for hydro power generation. All hydro-electric generators operate in association with environmental releases and planned flows to meet customer orders.

Capital works progress report

State Water's capital investment program totalled \$24.3 million for 2007-08 and major capital works projects carried out by State Water in 2007-08 totalled \$17.9 million as outlined below.

Project	Expenditure \$000	Project status	Comment
Blowering Dam Upgrade	945	<ul style="list-style-type: none"> Business case signed off by State Water Board and Treasury Pre-tender process including early contractors involvement well advanced Contract documentation being finalised 	First project in State Water's dam safety upgrade program to progress to detailed design.
Burrendong Dam Upgrade	195	<ul style="list-style-type: none"> Value management study undertaken Option refinement study to start shortly Liquefaction report from Department of Commerce almost complete 	
Chaffey Dam Upgrade	957	<ul style="list-style-type: none"> Options investigation complete Final geotechnical investigation in progress 	Upgrade options with or without augmentation selected and funding options developed.
Copeton Dam Upgrade	448	<ul style="list-style-type: none"> 90% of investigations complete 	Concept development of preferred option complete. Environmental assessment expected to start late 2008.
Keepit Dam Upgrade	2,030	<ul style="list-style-type: none"> Review of submissions complete. Awaiting planning approval of preferred project 	Design and documentation to proceed in 2008 and construction to start 2009.
Split Rock Dam Upgrade	297	<ul style="list-style-type: none"> 60% of investigations complete Refinement and optimisation of selected three options 90% complete 	
Wyangala Dam Upgrade	461	<ul style="list-style-type: none"> 90% of staged options investigations complete Spillway modelling complete 	Remedial works expected to begin in 2010.
Renewals and replacement	3,690	<ul style="list-style-type: none"> Continuous program 	Details in Area reports. See page 80.
Environmental Compliance	1,428	<ul style="list-style-type: none"> Continuous program 	Details in Area reports. See page 72.
Requirements for Improved Operating Effectiveness and Water Efficiency	7,422	<ul style="list-style-type: none"> Continuous program 	Details in Area reports. See page 40.
Total	17,873		



Glenbawn Dam.

Asset maintenance and river structures rehabilitation

Central area

The SCADA at Jemalong Weir was upgraded. A stop-log system was designed for Jemalong Weir and Marebone Weir. It can be positioned to restore the weir pool and for maintenance of gates and gate guides.

Erosion protection works for Willandra, near Hillston were completed.

Follow-up works at the North Marsh Bypass Channel were successfully completed. The Lake Cargelligo Office was upgraded.

Stabilisation of the Windamere Dam access road was completed and included resealing the road and improving safety. The access road to the dam passed through two major rock cuttings where rock falls posed a risk.

The trashracks of the Windamere Dam intake tower were also refurbished.

Carrathool Shire Council granted development approval for the Lake Brewster Water Efficiency Project. Funding from National Water Commission and Lachlan Catchment Management Authority was secured for the project.

Fencing of Lake Brewster storage, inlet channel and outlet channel was completed. The deepening of the outlet channel was completed. About 80% of the new outlet regulator was completed and 20% of the inflow wetland embankment was completed.

A number of projects were completed at Wyangala Dam, including refurbishing equaliser beams, bolts and seals for spillway gates and repairing the roof of the workshop and mechanical workshop. The refurbishment of the fixed wheel gate at Burrendong Dam was 50% completed.

Coastal area

During the 2007-08 year, Brogo, Lostock and Toonumbar Dams were in the midst of a 30-year maintenance cycle, while Glennies Creek Dam is undergoing a 20-year maintenance cycle. Works included valve refurbishment at Lostock, Glennies Creek and Glenbawn Dams.

To aid operational efficiency, 200mm new valves were installed at Glennies Creek, Lostock Brogo and Toonumbar Dams. Inspections and overhauls were also carried out on mechanical and electrical items focusing mainly on valves, pipelines, intake structures and ancillary equipment generally.

South area

Maintaining the heritage value of sites under State Water management continued with the stabilisation of 100-year-old rock walls in the village at Burrinjuck Dam. Heavy rainfall in 2004 washed away a rock wall below a cottage such that the cottage was in danger of collapse.

The advice of a geologist and the services of a mason skilled in repair of rock walls were utilised to repair the wall in early 2008. Local employees were involved in the project and acquired skills in this type of work.

Refurbishment of heritage-listed cottages at Burrinjuck Dam continued through the year with repairs replicating the original design of the cottages, but with modern features such as insulation.

Floating boat barriers were installed downstream of all Murrumbidgee River weirs. These exclude small boats from the turbulent water immediately downstream of the weir, and limit fishing in an area where fish often congregate to migrate upstream. A fishing exclusion zone was declared for Gogeldrie Weir.



Addressing operator safety was a priority for the Murrumbidgee structures. While investigations continued at Burrinjuck Dam and Balranald and Hartwood weirs, maintenance platforms were installed on Gogeldrie Weir and maintenance walkways installed on Yanco Weir.

At Burrinjuck Dam preliminary investigations continued into the future of the cableway, and the existing mobile crane was replaced.

A new personnel lift to access the penstock at Blowering Dam was commissioned in August 2007. This enabled much-needed inspections of the mechanical items in the penstock and on several steel pipes which appeared to be in poor condition. The inspection confirmed their structural integrity.

DPI-Fisheries has been consulted on work requiring environmental impact assessment or direct participation. DPI-Fisheries employees were on hand to effect a fish rescue when the Yanco Weir was emptied, as well as monitoring the impact of low flows downstream during the work.

North area

At Mollee Weir, restoration of the stone mattresses for downstream scour protection of the river bed and bank was completed.

The river control gate at Gunidgera Creek Regulator was removed and repainted at Keepit Dam's workshop.

The Tyreel Regulator offtake channel was desilted for the first time to improve water delivery efficiencies into the Lower Gwydir.

Grit blasting and painting the river control gates at Gundare Regulator was completed and while the structure was drained cracks were repaired in the floor slabs. Brakes were also installed to the hoist drive shafts to improve the reliability of operation, in lieu of automation.

At the five major weirs, emergency generators were upgraded to improve reliability. Backup emergency auxiliary drive units on the hoist decks were improved to increase speed of operation of the gates in the event of a flood.

Refurbishment and routine surveillance was conducted on 11 weirs on the Barwon and Macintyre Rivers by agreement with Treasury as a community service obligation.

At Pindari Dam divers drained the bypass penstock to carry out repairs to the emergency closure gate valve. The gravel access roads to two seepage weirs were realigned and bitumen-sealed to improve access. An additional seepage weir was constructed to measure and monitor the seepage downstream of the old spillway.

At Copeton Dam, after extensive lightning damage, the old copper cable and phone lines were replaced by optic fibre and digital phones

at key sites around the dam, to provide reliable services for both voice and data, internal alarms, and the proposed remote operation of the outlet valves. The dam's storage recorder was replaced by a pressure transmitter in the penstock, improving reliability and accuracy.

At both Pindari and Copeton Dams, contractors replaced the bulkhead gate winch's load cell with a line pull monitoring system. This reduces the strain on the hoist rope and chain used to raise the gate to allow the release of water.

At Keepit Dam, the 48-year-old spillway gantry crane was upgraded to comply with WorkCover requirements and provide a safer and more accurate means of operating the bulkhead gate and ancillary equipment. The access walkway to the outlet valves at the dissipater was refurbished to ensure safe access.

At Keepit and Copeton Dams, both six-tonne mobile yard cranes were refurbished.

At Chaffey Dam, the low-flow outlet valve was replaced by a variable flow valve, to be remotely operated and provide water savings through more accurate and timely releases.

At Split Rock Dam, the main penstock and outlet valves were emptied for inspection and patch painting.

SCADA was installed at Split Rock and Pindari Dams' upstream inflow gauges and an additional inflow gauge installed for Keepit Dam to improve reliability and provide real-time inflow data. SCADA was also installed at Chaffey Dam's downstream and tailwater gauges to improve and providing real-time outflow data.

Keepit Dam's main seepage measurement point was connected to SCADA, improving the reliability of its pump alarms and providing more accurate measurements.

The automation control systems at three of the major weirs and one of the regulators were enhanced with the upgrade of the operator machine interface units.

Hydro power summary

There are hydro-electric power stations on 10 of State Water's 19 large dam sites. These stations have a potential generation capacity of 249MW of power.

The lack of available head/discharge flows resulting from the on-going drought conditions has seen a number of sites unable to generate for several months.

As a consequence, the total generation was the lowest recorded for the past five years.

The 38.05GWh of hydro power generated represents a saving in production of 36,300t of greenhouse gases.

Power station locations

Dam	Year installed	Capacity (MW)
Blowering	1968	80
Burrendong	1996	19
Burrinjuck	1938, upgraded 2002	28
Copeton	1995	21
Glenbawn	1994	6
Hume	1957	60
Keepit	1960	6
Pindari	2001	6
Toonumbar	2000	0.1
Wyangala	1991, upgraded 2004	23
	Total	249

Following good rainfalls over the Hunter valley, the water level trigger point for commencement of hydro facility at Glennies Creek Dam was finally reached.

Owing to the six-year wait to reach this point, the proponent must now re-apply for local council development application consent.

Installation of the transmission line and associated transformer for the new mini hydro facility at Lostock Dam was completed.

Delivery and installation of the turbines is expected to occur in the next financial year.

Income to State Water from hydro-electric power generation, and site rentals, in 2007-08 totalled \$673,221.

Hydro power is an environmentally beneficial method of power generation, utilising kinetic energy from water discharges that would otherwise be lost.

Dissipation of energy through hydro generation minimises the effects of scouring caused by high energy water discharge from dams.

Electrical transmission losses are minimised when power can be used locally and does not need to be transported over long distances.

Water is not released from storages for just hydro power generation.

All hydro-electric generators operate in association with environmental releases and planned flows to meet customer orders.

State Plan Priority - P2

Maintain and invest in infrastructure

State Water's extensive asset base continues to be upgraded to meet modern day dam safety regulations and provide best practice operations with more than \$24.3 million allocated for capital investment programs and \$17.9 million for major capital works projects in 2007-08.

A major review of dam safety compliance has been completed and a cost-effective program has been prepared to achieve safety compliance across the dam portfolio. This program has been endorsed by the NSW Dams Safety Committee, the State's regulator of dam safety requirements.

A Dam Safety Program approach is being implemented to upgrade seven dams that are safe for day-to-day operations but do not meet modern day safety requirements for extreme events.

The continued drought has also provided opportunities for maintenance on normally submerged infrastructure and State Water has taken advantage of the chance to improve the condition of assets and increase operational reliability.

Developing emergency response and dam safety emergency plans

State Water develops maintenance and surveillance programs and undertakes inspections and audits and five-yearly safety reviews to ensure compliance with established procedures, including the requirements of the NSW Dams Safety Committee (DSC) (*Dams Safety Act 1978*) and NSW Treasury Government Asset Management Committee guidelines.

Dam safety management, maintenance audits, emergency planning and critical infrastructure management within State Water is the responsibility of the Dam Safety and Audit Group.

The group assesses compliance with NSW DSC requirements and Australian National Committee on Large Dams Guidelines by undertaking audits to assess compliance with technical and safety standards and inspection and reporting frequency.

The Dam Surveillance Unit does surveillance inspections and monitors dam instrumentation and behaviour. Dam and river structure

deformation surveys are undertaken by the Survey Services Unit. All programmed deformation surveys were completed.

Due to resourcing and scheduling requirements, and the ongoing restructure of operational functions, 17 of 21 dam safety inspections were completed this year.

Almost all programmed inspections and audits were completed. See page 50 for further information. The rest of the inspections will be carried out in 2008-09.

Due to progressive improvements in maintenance at State Water storages, maintenance audits were rescheduled to two-yearly for most assets.

The frequency of surveillance inspections has also been reduced for certain river structures.

Emergency response

State Water prepares contingency plans for various aspects of its business and operations, including flood inundation mapping of river valleys downstream of major dam assets.

These maps are used by councils in the preparation of Emergency Risk Management Plans, by the NSW State Emergency Service in the preparation of state and local flood plans and by State Water in its Dam Safety Emergency Plans (DSEPs).

DSEPs are in place for all 20 of State Water's major dams.

These are regularly reviewed, amended or reissued as required, and tested on a five-yearly schedule.

During the year four State Water DSEPs were amended and reissued after significant rewriting. Three DSEPs were tested this year.

State Water updated a further four draft plans on behalf of Department of Lands for dams prescribed under the *Dams Safety Act 1978*.

State Water is also involved in issues surrounding critical infrastructure protection, as some key assets are considered important to downstream communities and from a wider perspective.

Year	Audits/Inspections	Percentage
2006-07	Completed 19 dam safety inspections for the year	95%
2007-08	Completed 17 dam safety inspections for the year	80%

Developing and managing assets

State Water's Total Asset Management Strategy is constantly under development and review with refined assessments progressively carried out under changing financial, operational and engineering criteria and practice.

The current Total Asset Management Plan (TAMP 2004) document for regulated infrastructure details the background, principles, processes, information and outcomes of State Water's Total Asset Management Strategy.

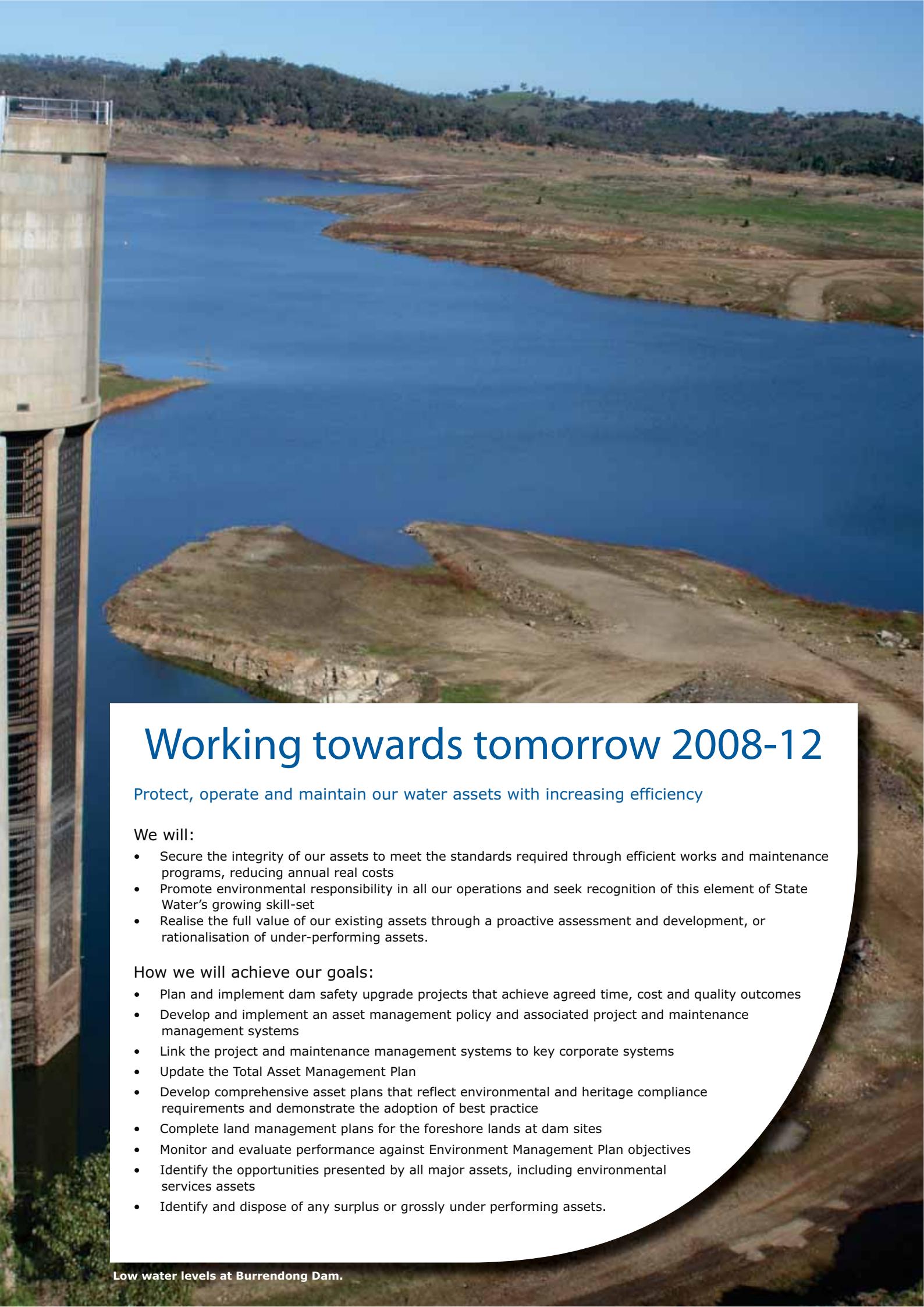
The plan also provides the strategic context for present and future decision-making about asset

management and encompasses risk, financial, environmental, heritage, levels of service for water delivery and engineering issues.

All regulated water infrastructure assets including dams, river regulation structures, land and buildings are being valued in accordance with revised NSW Treasury guidelines, a process expected to be finalised by June 2009.

A strategy for State Water's significant portfolio of unregulated river infrastructure was completed during the year.

The TAMP for unregulated infrastructure provides an asset strategy for assets not funded by IPART and is based on similar, but simplified, methodology.



Working towards tomorrow 2008-12

Protect, operate and maintain our water assets with increasing efficiency

We will:

- Secure the integrity of our assets to meet the standards required through efficient works and maintenance programs, reducing annual real costs
- Promote environmental responsibility in all our operations and seek recognition of this element of State Water's growing skill-set
- Realise the full value of our existing assets through a proactive assessment and development, or rationalisation of under-performing assets.

How we will achieve our goals:

- Plan and implement dam safety upgrade projects that achieve agreed time, cost and quality outcomes
- Develop and implement an asset management policy and associated project and maintenance management systems
- Link the project and maintenance management systems to key corporate systems
- Update the Total Asset Management Plan
- Develop comprehensive asset plans that reflect environmental and heritage compliance requirements and demonstrate the adoption of best practice
- Complete land management plans for the foreshore lands at dam sites
- Monitor and evaluate performance against Environment Management Plan objectives
- Identify the opportunities presented by all major assets, including environmental services assets
- Identify and dispose of any surplus or grossly under performing assets.

Case study

Joe taylor award

For the second year in a row State Water's team at Lake Cargelligo has won the Joe Taylor Award for the state's best maintained river structures.

The award recognises the highest level of management of State Water river structures in the areas of maintenance, operation and occupational health and safety standards.

Chief Executive Officer, George Warne said it was a significant achievement that State Water's Lake Cargelligo team won the award two years in a row.

"The team members at Lake Cargelligo pride themselves on having well maintained and operated structures and work hard to ensure they carry out all maintenance activities," Mr Warne said.

"The Lake Cargelligo asset team looks after all the river structures along the Lachlan River to ensure they are operating efficiently to deliver precious water reserves to water users, stock and domestic users, town water supplies and the environment.

"The river structures maintained by the Lake Cargelligo team include Lake Cargelligo Weir, Bumboggan Weir, Island Creek Weir, Booberoi Weir, Lake Brewster, Willandra Weir, Hillston Weir and Booligal Weir.

"The State Water team also plays a significant role in working closely with the community and river operations staff to manage lake and weir pool levels to balance competing demands, especially during the recent drought years.

"There is a real challenge in operating the weirs at optimum levels to minimise water quality impacts, maximise maintenance opportunities and conserve water resources for essential supplies in the lower Lachlan.

"State Water Lake Cargelligo team members are all very dedicated, working to the highest standards," Mr Warne said.

The team at Lake Cargelligo includes Barry Orr, Brett Lewis, Michael Rule, Glenn Riley, Geoff Stenhouse, and Tim Trembath, who together have more than 80 years of collective knowledge and experience working on river structures.

Joe Taylor had significant input and involvement in the design on most large irrigation dams throughout NSW, as well as numerous weirs and regulators on inland NSW streams. Joe Taylor passed away in 2005.

His last work for State Water was condition and safety audits of river structures.





Harvesting cotton near Narromine.

Profitable Business Growth

Secure funding for catchment improvement projects

NSW Rivers Environmental Restoration Program (RERP)

In conjunction with the Department of Environment and Climate Change (DECC), State Water has secured funding from the Commonwealth Government as part of the Australian Water Fund for the NSW Rivers Environmental Restoration Program (RERP).

The program, began in 2007-08 and is jointly funded by the Australian and NSW Governments until June 2011.

The announced funding of \$101.5 million for the NSW RiverBank program is supported by a further \$71.7 million grant from the Australian Government's Water Smart Australia program.

RERP focuses on five wetland areas in the Murray Darling Basin (Gwydir Wetlands, Narran Lakes, Macquarie Marshes, Lachlan Wetlands and the Lowbidgee Floodplain) with the goal to begin restoring some of the most significant and threatened wetlands in NSW.

RERP involves four sub-programs, each contributing to the overall objectives of the program:

- Subprogram I – Acquisition and Management of Environmental Water
- Subprogram II – Enabling Better Use of Environmental Water
- Subprogram III – Better Delivery of Environmental Water
- Subprogram IV – Partnerships for the Management of Environmental Water on Private Land.

The program is managed by DECC, with State Water responsible for the management and implementation of subprogram III.

The aim of subprogram III is to develop a range of initiatives and structural works which will allow for the better delivery of environmental water.

Projects will help improve the release, targeting and delivery of environmental flows as well as achieving additional environmental improvements such as improvements to fish passage. Ten million dollars has been allocated to subprogram III.

Activities being investigated as part of State Water's subprogram III include:

- installing two key regulators on the lower Lachlan River system to improve flow regimes to downstream wetlands
- installing fishways at key environmental sites to improve the movement of native fish in and out of key wetland areas
- a study to investigate the effectiveness of a suspended 'curtain' around the dam offtake tower, to mitigate the effects of cold water pollution in Burrendong Dam
- investigating the effectiveness of obtaining real-time data for river flows to achieve water savings and improve delivery efficiencies
- investigating and implementing improvements in the Yanco Creek System, including removal of redundant structures and improvements to remaining infrastructure
- investigating and implementing measures to effectively deliver environmental flows to key wetlands.



Reduce the subsidy required from shareholders

Reorganisation of state water

State Water's existing organisational arrangements are regionally based, involve duplication of functions, and suffer from small and scattered teams which are in many cases the remnants of a larger predecessor government organisation.

The current regionally based structure creates duplication of:

- management and specialist expertise
- maintenance planning and implementation
- water operations planning and management
- service delivery
- expertise, plant and equipment required at a large number of small, self sufficient work sites.

Proposed functional organisational arrangements and technology improvements will create efficiencies by refocusing priorities, streamlining business processes and minimising the duplication of functions, resources and expertise.

Removal of regionally based

organisational structures and an organisation wide approach to planning and managing maintenance, operations and service delivery will enable the organisation to function effectively and achieve a sustainable, efficient operating platform on which to build the business in the future.

The new structure for water delivery operations, customer operations, maintenance and field services, strategic asset management, major projects and a dedicated project management unit to implement new technology systems was put in place in June 2008 with the appointment of a new senior management group from internal and external recruitment.

There have been substantial changes in roles and organisational arrangements below these managers, and reduction in the number of employees.

Measures for assisting employees during the process, including an extensive communication program, independent advice and support

from an external human resources provider and a targeted voluntary redundancy (VR) program have been put in place.

An internal recruitment program and the targeted VR program are scheduled for the early part of 2008-09 in order to get the right people into the right positions and manage knowledge retention.

The new organisational arrangements will reduce the total number of positions within State Water by approximately 50.

This will involve the relocation of a number of positions, and change the design of many positions, which will lead to the need for some external recruitment.

Planning for changes to organisational arrangements in corporate functions started in 2007-08 and will be implemented in parallel with the changes described above.

Encourage policy framework that encourages investment

New water management policy framework

In 2007-08, the Commonwealth and the Basin States continued to work on the transfer of responsibility for water management in the Murray Darling Basin from the Basin States to the Commonwealth as part of the Water for the Future Program.

State Water actively contributed to the NSW stakeholder consultation.

The Commonwealth's new water management policy framework culminated in the establishment of the *Water Act 2007*.

The *Water Act 2007* has significant implications for State Water, including the regulatory role of the:

- Murray Darling Basin Authority
- Bureau of Meteorology
- Australian Competition and Consumer Commission.

Metering project

The Water for the Future Program has provided has provided an opportunity for State Water to invest in the Regulated Metering Project involving the replacement of customer meters with State Water owned meters within the Murray Darling Basin.

The Commonwealth has agreed in principle to provide \$90 million for this project, subject to due diligence.

It is estimated that replacement of the estimated 6000 meters involved would begin in 2009 and take a number of years to complete.

The new meter network would be connected via telemetry and be high security, tamper-proof and low maintenance, thereby reducing inaccuracy and non-compliance.

The project will deliver the benefit of water savings to the basin's waterways, along with enhanced billing services and fairness of distribution for customers.

Reduce impacts of revenue volatility

Water supply in the past decade has varied from a peak of 7,661GL in 1996-97 to a new historic low of 1,123GL in 2007-08.

As prices move towards a 60:40 fixed to variable tariff mix, revenue fluctuations will amplify.

In addition to increasing shareholder understanding of the impact of revenue volatility, State Water is also working to increase non-regulated sources of revenue to reduce reliance on variable water delivery revenues.

State Water has participated in two successful bids to the Australian Water Fund (AWF).

State Water, in conjunction with project partners Lachlan Catchment Management Authority, Lachlan valley CSC and Lachlan Valley Water, successfully obtained \$7.5 million funding for the Lake Brewster Water Efficiency project.

This project aims to improve water quality and operational efficiency at Lake Brewster.

The project will also increase reliability of the Lachlan system and improve the riverine environment within and downstream of the lake.

The project is expected to be completed in three years and will result in water savings between 9GL and 14GL through reduced evaporative losses from the lake.

State Water also contributed to the successful NSW bid to the AWF for The NSW Rivers Environmental Restoration Program which is coordinated by DECC.

The National Water Commission approved funding of \$71 million for the program, including \$10 million for the State Water subproject Better Delivery of Environmental Water.

The project aims to improve the release, management and delivery of environmental flows through a range of structural works that provide for the removal of in stream barriers and improvements in the quality, quantity and timing of environmental flows.

Foreshore leases

State Water has 56 rural property leases in place across eight major dams generating an annual income of about \$900,000 with funds being returned to improving the infrastructure of the foreshore land.

A further eight leases are in negotiation for two dams.

Each lease has strict lease conditions and incorporates property management plans, which are audited by State Water's managing agent Landmark.

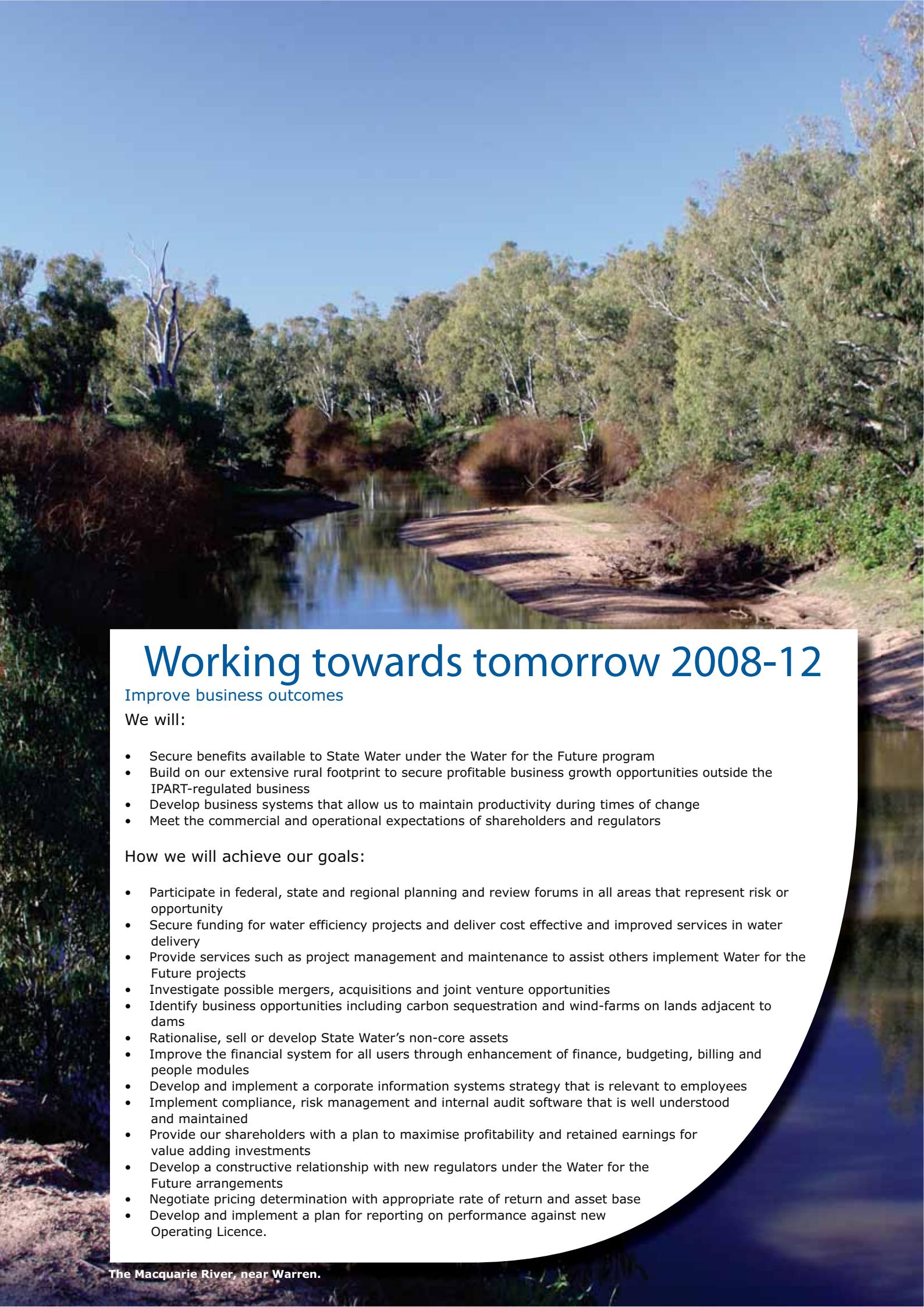
The results of property inspections in relation to the implementation of Property Management Plans have been positive with at least 80% of lessees meeting their responsibilities under those plans.

State Water adopted a Land Management Policy in 2006-07 which applies to inundated land, dam foreshores, land parcels associated with water management infrastructure and land parcels associated with office accommodation and workshop areas.

The policy is aimed at allowing commercial use of designated land as well as conserving or enhancing the natural and cultural heritage values associated with the land.

In the coming years, State Water plans to review land capability, undertake environmental and heritage assessments, develop appropriate site specific conditions and formulate land or foreshore management plans.

These activities will be combined into an integrated land management program to meet State Water's business needs and regulatory requirements.



Working towards tomorrow 2008-12

Improve business outcomes

We will:

- Secure benefits available to State Water under the Water for the Future program
- Build on our extensive rural footprint to secure profitable business growth opportunities outside the IPART-regulated business
- Develop business systems that allow us to maintain productivity during times of change
- Meet the commercial and operational expectations of shareholders and regulators

How we will achieve our goals:

- Participate in federal, state and regional planning and review forums in all areas that represent risk or opportunity
- Secure funding for water efficiency projects and deliver cost effective and improved services in water delivery
- Provide services such as project management and maintenance to assist others implement Water for the Future projects
- Investigate possible mergers, acquisitions and joint venture opportunities
- Identify business opportunities including carbon sequestration and wind-farms on lands adjacent to dams
- Rationalise, sell or develop State Water's non-core assets
- Improve the financial system for all users through enhancement of finance, budgeting, billing and people modules
- Develop and implement a corporate information systems strategy that is relevant to employees
- Implement compliance, risk management and internal audit software that is well understood and maintained
- Provide our shareholders with a plan to maximise profitability and retained earnings for value adding investments
- Develop a constructive relationship with new regulators under the Water for the Future arrangements
- Negotiate pricing determination with appropriate rate of return and asset base
- Develop and implement a plan for reporting on performance against new Operating Licence.

Case study

Construction starts at lake brewster

Construction has started on the \$13 million Lake Brewster Water Efficiency Project.

State Water Central Area Customer Service Manager, Sri Sritharan said the start of construction marked six years of hard work by many people to develop the project and secure the funds.

"An initiative of the Lachlan valley community, the Lake Brewster Water Efficiency Project will increase water efficiency and improve the water quality and wetland environment within the lake," Mr Sritharan said.

"The goal is to improve the efficiency of Lake Brewster as an essential operational component of the Lachlan valley river system."

The project is a joint initiative between regional natural resource managers, water delivery managers and water users on the Lachlan River.

"This is an example of all stakeholders working together for a more sustainable, efficient and secure river operation," Mr Sritharan said.

"Being a large, shallow lake, it is difficult to manage efficiently for water delivery operations and it suffers poor water quality resulting in frequent blue-green algae outbreaks," he said.

"Lake Brewster operates inefficiently when water levels are below 30 per cent. Under this level, the rate of discharge falls dramatically and the lake has high evaporation rates, especially in summer."

Mr Sritharan said the lake also experienced serious water quality problems with increasing nutrients, turbidity, salinity and blue-green algae levels resulting in poorer quality water discharged back into the river.

"If the operational efficiency of the lake was not improved and it continued to experience environmental problems, there was a risk it would be taken out of operation," he said.

The project will

- generate water savings of up to 10GL to be shared between a new adaptive environmental water access licence, State Water and water users
- improve general security reliability
- reduce water ordering time lags below Lake Brewster by up to 18 days
- create 1,100ha of managed wetlands to improve water quality and habitat in Lake Brewster and water discharged to Lachlan River
- reproduce more natural cycles for an ephemeral off-river lake
- manage flows to strive for more natural conditions of the river system
- create environmental benefits for the riverine environment downstream of Lake Brewster.



Lake Brewster Water Efficiency Project Manager, Harry Herath.



A channel bubbler.



Corporate Governance

The information in this section of the report meets State Water's statutory reporting obligations, particularly under the *Annual Reports (Statutory Bodies) Act 1984* and the *Annual Reports (Statutory Bodies) Regulation 2005*. It is provided in accordance with the annual reporting requirements published by NSW Treasury.

Establishment

State Water Corporation is a statutory State Owned Corporation (SOC) under the *State Owned Corporations Act 1989*, established by the *State Water Corporation Act 2004*. Under this Act, the principal objectives of State Water are:

- 1) To capture, store and release water in an efficient, safe and financially responsible manner.
- 2) The other objectives of the organisation are:
 - a) to be a successful business and, to that end:
 - i) to operate at least as efficiently as any comparable business, and
 - ii) to maximise the net worth of the State's investment in the Corporation,
 - b) to exhibit a sense of social responsibility by having regard to the interests of the community in which it operates,
 - c) where its activities affect the government, to conduct its operations in compliance with the principles of ecologically sustainable development contained in section 6(2) of the *Protection of the Environment Administration Act 1991*,
 - d) to exhibit a sense of responsibility towards regional development and decentralisation in the way in which it operates.

Shareholders

In accordance with the provisions of the *State Water Corporation Act 2004*, State Water has two shareholding ministers each holding one equal share.

As at 30 June 2008, those Ministers were The Hon Michael Costa MP, NSW Treasurer and The Hon John Watkins MP, NSW Minister for Finance.

Functions

The principal functions of the Corporation are:

- a) to capture and store water and to release water:
 - i) to persons entitled to take water, including release to regional towns,
 - ii) for the purposes of flood management,
 - iii) for any other lawful purpose, including the release of environmental water,
- b) to construct, maintain and operate water management works,
- c) any other functions conferred or imposed on it by the operating licence or by or under this or any other Act or law.

State water board

The *State Water Corporation Act 2004* provides that the Board consists of not fewer than three and not more than eight Directors appointed by the voting shareholders, in consultation with the portfolio Minister.

The independent non-Executive Directors of the Board have been appointed for fixed-period, renewable terms. The CEO is an Executive Director of the Board.

The Board is accountable to the voting shareholders in the manner set out in Part Four of the *State Owned Corporations Act 1989* and in the State Water Constitution.

Directors' interests

Directors are required to disclose any material contract or relationship with State Water and to disclose all companies or other organisations with which they are professionally involved.

Details of Directors' interests are maintained by the Company Secretary in a register, which is available at every Board meeting.

The constitution provides for procedures to be followed in the event of a conflict or a perceived conflict arising between a Director's interest and a matter before the Board.

	Board meetings		Committee meetings	
	Eligible	Attended	Eligible	Attended
Directors				
AG (Tony) Wright (Chairman)	12	11	13	13
Dr Kathleen Bowmer	12	12	12	10
⁺ Kathy Ridge	3	3	2	2
Mike Bennett	12	12	11	11
Don Marples	12	12	6	6
^o Dr Col Gellatly AO	12	11	7	5
[~] Catherine Bolger	12	11	7	5
[^] Anne Thompson	5	3	0	0
[*] Geoff Borneman	5	5	8	8
[#] George Warne	7	7	9	9

^oDr Col Gellatly began his term on 16 July 2007. [~]Catherine Bolger began her term on 1 August 2007.

⁺Kathy Ridge finished her term on 30 September 2007. [^]Anne Thompson began her term on 15 February 2008.

^{*}Geoff Borneman acted as CEO from 16 December 2006 to 5 December 2007.

[#]George Warne was appointed as CEO on 6 December 2007.

Directors' remuneration

Directors' remuneration is determined by the NSW Government and is currently in the form of a cash stipend without at risk elements, but including nine percent superannuation contributions. State Water makes payments to the directors in accordance with these directions under the framework of the organisation's normal payroll system. Out of pocket expenses related to attendance at meetings are reimbursed.

Non-executive members meetings

The Board continued regular brief meetings of non-executive members before every board meeting this year. These meetings are held without management present and provide a forum that allows for open discussion on Board and management performance.

Board committees

The Board has three governance committees to consider matters in more detail and to assist in decision making, oversight and control resulting in recommendations to the Board. The committees have delegated authority as specified in their respective Terms of Reference.

Audit and compliance committee

Members: Don Marples, Kathy Ridge (to 30 September 2007), Kath Bowmer, Mike Bennett, Geoff Borneman (to 5 December 2007), George Warne (from 6 December 2007, Anne Thompson (from 27 June 2008)

The purpose of the Audit and Compliance Committee is to:

- ensure the maintenance of the highest ethical standards through the Code of Conduct
- ensure that an effective internal control framework exists
- approve and review the annual audit program
- review audit report(s)
- review the performance of the internal auditors
- review and monitor the effectiveness of management systems designed to ensure compliance with all statutory requirements
- review compliance with applicable accounting standards
- review compliance with the OHS Act and Regulations
- monitor statutory compliance with the requirements of various regulators of the Corporation including Dams Safety Committee, DWE (water supply Works Approvals), IPART (Operating Licence and bulk water pricing determination).
- review the effectiveness of the compliance function in general.

Risk management committee

Members: Mike Bennett, Tony Wright, Col Gellatly (from 16 July 2007), Geoff Borneman (to 5 December 2007), George Warne (from 6 December 2007)

The purpose of the Risk Management Committee is to:

- ensure that an effective risk management framework exists to manage and mitigate risk in an innovative manner, which accords with the Australian

Standard AS/NZS4360 and internationally recognised best practice

- review risk management strategies
- ensure that adequate policies and procedures have been designed and implemented to manage all identified risks
- review audit reports and monitor any investigations of alleged breaches of policy, to identify the need to change risk management policies
- review internal control systems and the operational effectiveness of policies and procedures relating to risk
- monitor the ten most significant risks and regularly review the actions taken to manage these risks.

Remuneration and organisation development committee

Members: Tony Wright, Kath Bowmer (to 27 June 2007), Catherine Bolger (from 1 August 2007), Geoff Borneman (to 5 December 2007), George Warne (from 6 December 2007)

The purpose of the Committee is to:

- assist the Board to determine and oversee the Board's people and remuneration strategy and policy
- assist the Board to determine parameters for and oversee the Chief Executive Officer and contract employee remuneration, recruitment and development policy and practice
- oversee State Water's organisation development policy and practice to ensure

- seamless implementation of corporate strategy throughout the organisation
- assist the Board in meeting regulatory reporting and stakeholder reporting requirements
- review and monitor the effectiveness of management systems designed to ensure compliance with policy requirements.

Special interest committees

State Water has two Special Interest Committees. The Water for the Future Opportunities Committee was established to explore and develop opportunities arising from the commonwealth Water for the Future initiative. This committee did not meet in 2007-08.

The IPART Committee was established to oversee the preparation of current and future IPART submissions, and meets on an ad hoc basis.

There was one meeting of the IPART Committee in 2007-08.

In addition to these two Special Interest Committees, there is a Marketing and Customer Relations Reference Panel.

Insurance

State Water has policies under the Treasury Managed Fund, providing unlimited cover for the following insurable risks:

- comprehensive motor vehicle
- Property (full replacement, new for old, including consequential loss)
- liability, including but not limited to public liability, products liability, professional indemnity and directors/officers liability
- miscellaneous, notably personal accident and protection for overseas travellers.

The only exposures not included are: illegal operations; wear, tear and inherent vice; and pollution (other than sudden and accidental pollution).

The fund is protected by a wide-ranging reinsurance program that reimburses losses above a predetermined retention figure. For general liability that amount is \$25 million and for workers' compensation and property it is \$20 million.

Code of conduct

To ensure the ethical principles of the Code of Conduct remain a vital part of the day-to-day operations of State Water, a copy of the Code is on the State Water intranet.

It is also included for all new employees with their letter of offer, with an explanatory session held at regular orientation days.

No breaches of the Code of Conduct were reported in 2007-08.

In May 2008 the Code was revised to include specific references to bribery and corruption, making explicit the need for every employee to be aware of the need to be wary of gifts and benefits from suppliers and to seek permission from supervisors before accepting any gift or benefit. It is also made clear that the acceptance of cash is never acceptable. The Code also contains examples of token and non-token gifts or benefits.

Further additions to the Code include definitions of ethics and conflicts of interest as well as some simple questions to help employees think through a process of ethical decision making.

A duty to notify conflicts of interest has also been included to ensure transparency. Further clarification to the section on the private use by employees of State Water equipment has also been included.

Legal change

No changes were made to the Corporation's enabling legislation, the *State Water Corporation Act 2004*.

Ethnic affairs priority statement

State Water continued to meet the needs of its customer and employee base and promoted the principles of ethnic affairs.

State Water is committed to the principles of multiculturalism and has developed an Ethnic Affairs Priority Statement (EAPS) in keeping with the nature and size of the corporation.

Achievements to date include:

- inclusion of EAPS in the recruitment process
- encouragement of a greater understanding by employees of the cultural needs of State Water's customer base.
- development of a cultural calendar to identify days of significance.

Land disposal

State Water did not dispose of any real property in 2007-08.

Privacy policy

State Water has in place a Privacy Management Plan in accordance with Section 33 of the *Privacy and Personal Information Protection Act 1998*.

No reviews were conducted by or on behalf of State water under Part 5 of the Act.

Trends in the representation of EEO Groups					
EEO group	Target	2004-05	2005-06	2006-07	2007-08
Women	50%	17.0%	18.0%	19%	20%
Aboriginal and Torres Straight Islanders	2%	1.7%	1.7%	1.6%	1.7%
People whose language first spoken as a child was not English	20%	8.0%	7.0%	6%	6%
People with a disability	12%	9.0%	*	*	*
People with a disability requiring work related adjustment	7%	2.0%	*	*	*
Trends in the distribution of EEO Groups					
EEO group	Target	2004-05	2005-06	2006-07	2007-08
Women	100	92	91	81	87
Aboriginal and Torres Straight Islanders	100	*	*	*	*
People whose language first spoken as a child was not English	100	136	127	*	*
People with a disability	100	98	*	*	*
People with a disability requiring work related adjustment	100	*	*	*	*

Notes:

1. Employee numbers are as at 30 June 2008. 2. Excludes casual employees. 3. A Distribution Index of 100 indicates that the centre of the distribution of the EEO group across salary levels is equivalent to that of other employees. Values less than 100 mean that the EEO group tends to be more concentrated at lower salary levels than is the case for other employees. The more pronounced this tendency is, the lower the index will be. In some cases the index may be more than 100, indicating that the EEO group is less concentrated at lower salary levels. The Distribution Index is automatically calculated by the software provided by ODEPE. 4. The Distribution Index is not calculated where EEO group or non-EEO group numbers are less than 20.

Equal employment opportunities

State Water continued with the implementation of the EEO Management Plan in 2007-08, which focuses on ensuring a consistent understanding and application of EEO principles by all employees.

All six objectives of the EEO Management Plan have a number of programs and actions which aim to address the needs of employees and that of the Corporation in relation to EEO.

The focus for this year has been refresher training with managers and supervisors regarding EEO and the importance it plays.

No breaches of equal employment policy were identified or reported during the year.

As a part of the restructure, a Restructure Recruitment Management Policy was developed, specifically to ensure all employees were treated

equally throughout the recruitment process as a result of the restructure.

The policy included State Water offering all employees the opportunity to attend Career Decision Making Workshops which focused on preparing individuals for the recruitment phase by developing current resumes and coaching, using behavioural techniques, on how conduct themselves during and interview.

Employee assistance program

State Water provides an Employee Assistance Program, which is a free counselling service available to all employees and their immediate family.

Influenza Vaccination

State Water introduced voluntary flu shots, with the organisation reimbursing employees for the cost of the vaccination.

The initiative is aimed at ensuring State Water's employees remain

healthy during winter and reinforces State Water's focus on Occupational Health and Safety, as well as the People value of supporting, developing and motivating each other.

Controlled entities

State Water does not control any entities.

Delegations to management

State Water Corporation has an authorisation manual for use by State Water employees.

The manual contains authorisation limits for the Chief Executive Officer and all other employees.

The manual covers an extensive range of functions and defines the limits on the exercise of functions and powers for relevant employees.

Freedom of information

State Water received two Freedom of Information (FOI) requests during 2007-08 and both applications were completed.

One application was discontinued when the applicant was advised the documents sought were publicly available.

The other application was completed when the applicant was advised the documents sought had been produced in private litigation proceedings.

No applications were refused.

No applications were received in the preceding reporting year. No applications were brought forward from the previous reporting year.

There were no applications for an internal review.

No application was sought for personal records or the notation of personal records.

State Water received \$30 in fees for FOI requests.

Documents held

State Water holds a variety of documents, including business files, legal documents, maps, photographs, plans and publications.

State Water's policy documents and annual reports, setting out its functions and responsibilities, may be inspected and are available free of charge at State Water's Dubbo and Parramatta offices.

Many of State Water's key documents and a current list of State Water publications are available at www.statewater.com.au.

State Water publishes a Summary of Affairs under the *Freedom of Information Act, 1989* in the Government Gazette every six months, listing all policy documents.

Access arrangements and procedures

Under the *Freedom of Information Act 1989*, State Water is required to make information available whenever possible. However, access may be refused where it can be demonstrated that there is a legitimate need for confidentiality or where another person's privacy may be invaded.

Exempted information may include:

- NSW Government Cabinet and Executive Council documents
- documents which are exempt under the Freedom of Information legislation of another jurisdiction
- documents concerning law enforcement or public safety
- documents subject to legal professional privilege
- documents subject to secrecy provisions in other legislation
- documents affecting the personal or business affairs of another person or business; this exemption maintains the confidentiality of information relating to the business affairs of companies made available to State Water
- documents affecting the economy of the State.

Access

Enquiries may be made to the FOI Coordinator:

Telephone: (02) 9354 1043

Fax: (02) 9354 1106

Address: PO Box W16, Westfield

Parramatta NSW 2150

Email: statewater@statewater.com.au

Past and present State Water employees have access to their own file(s) at any time, free of charge.

Executive remuneration

At the end of 2007-08, State Water had 11 executive officers with remuneration equal to or exceeding the equivalent of the NSW Senior Executive Services (SES) Level One.

Of these executive officers, two employees were female. One male executive officer was employed at SES Level Five.

The Chief Executive Officer was formally appointed during 2007-08, with a remuneration equivalent to SES Level Five:

- George Warne, Chief Executive Officer, \$275,000.
First day of duty was 6 December 2007.

At the end of the tenure for the Acting Chief Executive Officer remuneration was equivalent to SES Level Five:

- Geoff Borneman, Acting Chief Executive Officer, \$240,000.
- Performance Bonus of (5%) paid based on a successful performance assessment by the Chairman of the Board.
Last day of duty was 5 December 2007.

In comparison, at the end of 2006-07 there were 10 officers, including one female, employed at or above SES Level One, with one male executive officer being employed at SES Level Five.

Overseas visits

As part of investigations into the reorganisation of State Water three employees visited New Zealand to review dam safety surveillance and management systems and processes from 26-28 May 2008.

Nature of application	Application fee *	Processing
Access to records by natural persons about their personal affairs	\$30	\$30 an hour after first 20 hours
All other requests	\$30	\$30 per hour
Internal review (all circumstances)	\$40	Nil
Amendment of personal details	Nil	Nil

*A 50% reduction in fees and charges applies in some situations, such as pensioners or non-profit organisations experiencing financial hardship.

CEO performance statement

The Chief Executive Officer George Warne, joined State Water on 6 December 2007. The role was performed for the first half year, on an acting basis, by Geoff Borneman, Chief Operating Officer.

During the first six months of 2007-08 for which Mr Borneman led State Water, he demonstrated good performance and sound achievements in all critical success factors. He led the development of the restructure of the operations area and progressed development of commercial systems as a critical priority.

Mr Warne's focus since taking over the CEO's role in December has been in leading the Corporation through a period of substantial change in implementing the restructure and negotiating a new employment agreement.

Both tasks provide the foundations for State Water to progress the quest to improve efficiency and improve customer services.

The Board is satisfied with both Mr Borneman's and Mr Warne's performance and has been particularly pleased with their abilities to bring together a team during such significant change for the Corporation.

These achievements have been made against the backdrop of continuing external influences on State water operations, in particular, the drought and the Commonwealth Government's Water for the Future program.



A G (Tony) Wright

Publications

State Water has a wide range of policy, administrative and information documents that are available to members of the public from State Water offices or the website.

Those produced during 2007-08 year include:

- Who we are
- 2006-07 Annual Report
- SCI 2007-08
- Complaints Report 2007-08
- 2007 Customer Service Charter
- State Water – Facts and Figures
- More than 190 media and customer notices were issued and posted on the website.

Funds granted to non-government organisations

State Water did not grant any funds during 2007-08.

Research and development

A number of projects were undertaken during 2007-08 to further develop State Water initiatives.

University links

State Water continued its sponsorship program in 2007-08 with the University of NSW (UNSW) to grow a new generation of graduates with dam engineering skills. The program will result in the establishment of a five-year position of a Senior Lecturer/Associate Professor of Dam Engineering at UNSW to foster dam and civil engineering students.

Exceptional movements in wages, salaries or allowances

There were no exceptional movements in wages, salaries or allowances in the 2007-08 year.

Electronic service delivery

State water website

State Water continues to enhance its presence on the internet through its website: www.statewater.com.au, to provide customers and members of the public with greater access to water delivery and asset information, as well as information on how to pay their accounts and key publications that are available to the public.

All media releases and customer notices are placed on the website for easy access.

Internet water accounting system

The Internet Water Accounting System (iWAS) introduces a major change in the way the State Water collects and provides information to better manage NSW water resources.

iWAS will provide Access Licence holders with a simple and fast way to access their water account information, water orders, meter readings and licence information.

Furthermore, it will be used to update customers with relevant notices, such as supplementary events.

Phase one of iWAS, will support regulated river water sources administered under the *Water Management Act 2000*. It is expected to be delivered early 2009.

Consultants

Consultant	Project	\$ Cost
Finance and accounting/tax		
Cooper Consulting	Integrated Financial Management System post implementation review	\$33,000
Engineering		
RJ Keller and Associates	Spillway adequacy assessments	\$50,223
Total		\$83,223

Consultants less than \$30,000

During the year, four other consultants were engaged for projects costing less than \$30,000 at a total cost of \$50,186.

Consumer response

State Water is required as part of its Operating Licence to establish and maintain a complaints handling system.

The annual statistics on complaints are submitted to IPART as part of the Operating Licence Report, which is publicly available on State Water's website.

State Water relies on feedback to continually improve our services to meet our customers' needs and provide the best bulk water delivery service possible.

We respect the rights of community members and customers to express their concerns and issues that are directly related to our operations.

During the 2007-08 reporting year, State Water recorded 51 complaints.

Using the IPART determined complaint categories, the majority of complaints were in the billing and water release/operations, which is similar to previous years.

During the reporting year, one complaint was received direct to Head Office, four via concerns forms to local offices and 35 complaints were raised by letter with members of parliament or the Minister for Water.

The billing enquiries hotline received an average of 690 calls per month in 2007-08, but only registered 11 formal complaints into the billing system, with the majority of customers' enquiries being resolved during the phone call.

State Water endeavours to resolve any problems as quickly as possible at the local level. Customer Service Officers in regional offices are encouraged to work with customers directly to resolve concerns.

State Water addresses those which cannot be resolved between the customer and local officers on a priority basis.

State Water responds to all complaints raised through the Minister's office within four weeks of the notification. Most local complaints are also resolved in less than four weeks.

It should also be noted that complaints received were seldom reflective of State Water's performance, especially where they involved a misunderstanding of State Water's operational framework under the terms of the Operating Licence, or a request for preferential treatment contrary to those terms.

A significant portion of complaints involved concerns about the impact on job security and/or operations resulting from the organisational restructure scheduled for 1 July 2008.

Seven matters were raised with our external complaints ombudsman, EWON (Energy and Water Ombudsman NSW).

The matters were all resolved in favour of State Water, as the nature of the complaints with EWON were based on misunderstandings of water charges or the right of State Water to raise bills when water is not delivered.

Credit card certification

State Water operates Visa credit card facilities with Westpac Bank.

All expenditure on credit cards is certified by card holders and independently verified by the cardholder's supervisor.

There is also continuous review of usage characteristics and authorisations to promote correct usage. Card usage is closely monitored.

State Water incurred no late payment fees for 2007-08.

Credit card expenditures during the financial year complied with best practice guidelines.

Energy management

State Water began implementing its Energy Management Plan in 2007-08. The plan was created to contribute to the strategies, targets and performance indicators as outlined in State Water's Environment Management Plan (EMP).

State Water's Energy Management Plan ensures compliance with the NSW Government's commitment to reducing greenhouse gas emission and to meet the targets outlined in the EMP.

Many strategies have been introduced to achieve reductions in energy consumption, produce improvements in performance and ensure continued progress towards energy management objectives.

Programs underway include:

- reducing energy use for tenanted office buildings to - 440MJ/2
- passenger vehicles less than 3.5t- fuel consumption to be 10L/100km
- an average Green Score of 8 or better over a two-year period
- Water infrastructure - energy consumption of 1,000MJ/GL of water released per annum.

Due to the variant nature of water releases, State Water is unable to accurately measure how much energy is being used when water is released at dam sites. Carbon credits to offset the energy consumption of water infrastructure are being investigated.

Electricity usage

During 2007-08 electricity use at State Water's Head Office was 223MJ/m² (103,280 kWh over 1,665m²) and 496MJ/m² (206,793kWh over 1,500m²) at the Parramatta office.

In other buildings, electricity costs are included in lease fees and are not measured. All electricity use is in keeping with Government contract arrangements.

Green power represents 15% of the electricity purchased - a 9% increase in the green power used in 2006-07.

A consultant was engaged to conduct electricity audits on the three highest energy users: Dubbo and Parramatta Offices and Fish River Water Supply. An on-site audit was conducted for Fish River Water Supply and the findings indicate for an initial capital investment, significant cost savings can be achieved.

Audits of the Dubbo and Parramatta offices consisted of a review of electricity accounts. The report indicates savings of between 10% to 30% are achievable if energy saving practices are implemented.

State Water has also submitted a grant application to be part of the Green Business Program, a DECC initiative which provides \$30 million over five years to help business overcome the barriers to investment in water and energy savings and implement projects that will improve business resource efficiency.

Fuel consumption

Total fuel consumption and mileage for passenger vehicles increased in the past 12 months, however fuel consumption per kilometre for passenger vehicles decreased.

The target in the EMP is to reduce fuel consumption for passenger vehicles of less than 3.5t to 10L/100km. This target was exceeded in 2007-08 with passenger vehicles less than 3.5t recording an average of 9.65L/100km. This was a 16% improvement from 11.43L/110km in 2006-07

While mileage increased by 23% over the year for passenger vehicles, due to the increased take-up of private leasing arrangements, fuel costs for these vehicles only increased by 7%.

This reflects the improved green score and the fact that changes to State Water's vehicle selection policy have seen an increase in the use of more fuel efficient vehicles. Having access to vehicles that can be packaged for private use by employees who require a vehicle to do their job often means that individual is driving a vehicle that has less environmental impact.

Total mileage for the fleet was 4,612,469km (including all private usage on lease-back vehicles) at a cost of \$690,922.

Green Score

State Water has achieved its EMP target for the fleet's Green Score of 8 or better over a two-year period. The overall score 2006-07 was 8.1 and that improved to 8.3 in 2007-08.

The score for commercials is 7.7, with passenger vehicles scoring significantly better at 11.1, a significant improvement on the 2006-07 passenger vehicle green score of 8.3.

Motor vehicle selection

State Water is moving towards a 'greener' fleet after the introduction of a revised Motor Vehicle Selection Policy, particularly with the introduction of a Toyota Prius to the selection range.

Investigations are underway into the feasibility of purchasing a second Prius to be based at Parramatta. The inclusion of more energy efficient vehicles into the selection range has also increased State Water's green score to well above the stated KPI.

Waste reduction

State Water is implementing its Waste Reduction and Purchasing Plan (WRAPP) in an effort to meet our Environment Management Plan targets and to reduce waste and increase the use of recycled materials.

State Water is committed to reducing waste and encouraging employee participation through practical strategies that avoid waste, increase resource recovery and increase the purchase of recycled products.

Processes to reduce waste include:

- an increased use of the State Water intranet to distribute internal communications and provide ready access to policies and procedures
- the re-use of envelopes for all internal mail and the re-use of paper through fax machines and photocopiers
- recycling arrangements at State Water's major offices, with dedicated collection bins to encourage employees to recycle paper and paper products
- recycling used toner cartridges, which are returned to suppliers for re-manufacture.

State Water is committed to the NSW Government's WRAPP.

WRAPP objectives are:

- reduce waste
- increase purchases of recycled content and materials in four areas:
 1. paper products
 2. office equipment and consumables
 3. vegetation material
 4. construction and demolition material.

Case study

Recycle and environmental awareness program

State Water employees are implementing a broad strategy to reduce energy use and waste, to cut costs and benefit the environment.

The organisation is striving to meet a series of benchmarks for fuel consumption, vehicle use, conserving resources such as paper and power, sourcing green power, recycling organic and building materials, reducing office heating costs and introducing hybrid and more economical vehicles.

State Water is well on track to achieving its target of restricting fuel consumption to 10 Litres per 100km in passenger vehicles under 3.5t by buying more efficient vehicle varieties, including a hybrid Toyota Prius at Head Office in Dubbo, and by reducing speeds.

The organisation has already exceeded its green rating target of eight for vehicles, through the introduction of a sedan rating a green score of 14 and a commercial utility that rates 12.

The campaign will feature an inter-office competition, periodic email advice and reminders, recognising significant achievements and appointing specific employees to encourage participation.

State Water CEO George Warne said an audit at three major State Water sites indicated better energy efficiency could cut energy expenses by up to 30% and return savings within the first three years of new investment.

"State Water is determined to set a leading example for our customers, employees and the community, to use limited and valuable resources responsibly, and be good corporate citizens generally," Mr Warne said.

"This campaign is in line with stringent State Government expectations and is much more than flicking off lights and monitors at the end of the work day.

"In the case of fuel efficiency, for example, we are buying more economic conventional vehicles, better planning our trips , improving driving practices, and fostering a culture of jumping in the car only when absolutely necessary.

"We will be questioning our non-essential purchases from the outset. We will reuse it wherever possible and, when we can't reuse it, we will recycle it.

"This is about taking a mature, responsible approach to being cost-effective, efficient and recognising that the days taking anything but a wholehearted approach are firmly in the past."



Budgets

State Water's 2007-08 budget was approved by the State Water Board on 2 November 2007. There were no changes to the approved budget after this date.

Budget	2007-08 \$ million	2008-09 \$ million
Sales Revenue	47.0	47.0
Pass through revenue from customers	5.3	5.0
Government community service obligation	1.8	0.6
Other income	13.2	21.0
Total revenue	67.2	73.5
Regulated operating expenses	(39.3)	37.9
Pass through costs	(5.3)	(5.0)
Other expenses	(14.3)	(24.4)
Earnings before interest tax and depreciation	8.4	6.3
Depreciation and amortisation	(6.1)	(6.4)
Earnings before interest tax	2.3	(0.1)
Net interest	(1.7)	(2.7)
Net profit before tax	0.6	(2.8)
Income tax expense	-	0.0
Net profit after tax	0.6	(2.8)
Dividend payable	(0.4)	0.0
Contributions to retained earnings	0.2	(5.8)

Payment of accounts

State Water's target is to settle all accounts payable within 30 days, or in accordance with the terms agreed with individual vendors.

There was no late penalty interest incurred by State Water for late payment in 2007-08.

Accounts Payable Performance Review

Aged analysis at the end of each quarter					
Quarter	0 - 30 days \$	30 - 60 days \$	60 - 90 days \$	> 90 days \$	Total \$
September	240,503	513,109	0	45,941	799,553
December	357,410	624	0	46,353	404,387
March	663,735	3,043	2,143	46,178	715,099
June	1,388,597	1,541	12,531	48,682	1,438,820

Accounts paid on time within each quarter

Quarter	Target %	Actual %	On-time \$	Total \$
September	85%	56%	\$11,653,682	\$20,954,240
December	85%	91%	\$21,565,341	\$23,693,451
March	85%	84%	\$13,959,662	\$16,689,006
June	85%	87%	\$20,434,662	\$23,413,512

Liability management performance

All State Water borrowings are made through Treasury Corporation. Since Treasury Corporation is the benchmark for borrowing comparison, actual performance and benchmark are the same.

Investment performance

Investment performance comparison		
Underlying liability	Rate of return %	Benchmark rate of return %
Treasury Corporation hour-glass		
Long service leave provision:		
0-2 years	6.84	6.82
2-4 years	6.84	0.27
4-7 years	6.84	(0.57)
7 + years	5.59	(10.27)
All other liabilities	3.71	6.82
Cash at bank		
Long service leave provision:		
2-4 years	1.18	0.27
4-7 years	4.76	(0.57)
7 + years	4.76	(10.27)
Deferred government grants	7.09	6.82
All other liabilities	7.11	6.82



Travelling irrigator in the Macquarie valley.



Financial Statements

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State Water Corporation

Statement by Members of the Board

30 June 2008

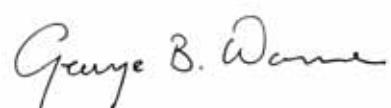
Pursuant to Section 41C of the Public Finance and Audit Act 1983 we state that:

1. The accompanying financial statements are a general purpose financial report which have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, the *State Owned Corporations Act 1989*, the *Public Finance and Audit Act 1983* and the *Public Finance and Audit Regulation 2005*, and give a true and fair view of the financial position of State Water Corporation as at 30 June 2008 and its performance, as represented by the results of its operations and its cash flows for the year ended on that date.
2. At the date of this statement, there are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they become due and payable.
3. We are not aware of any circumstances at the date of this statement that would render any particulars included in the financial report to be misleading or inaccurate.

Signed in accordance with a resolution of the Board of Directors:
16 October 2008



AG (Tony) Wright
Chairman
20 October 2008



George Warne
Chief Executive Officer
20 October 2008



GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDITOR'S REPORT

State Water Corporation

To Members of the New South Wales Parliament

I have audited the accompanying financial report of State Water Corporation (the Corporation), which comprises the balance sheet as at 30 June 2008, the income statement, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes.

Auditor's Opinion

In my opinion, the financial report:

- presents fairly, in all material respects, the financial position of the Corporation as at 30 June 2008, and its financial performance and cash flows for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- is in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2005

My opinion should be read in conjunction with the rest of this report.

Directors' Responsibility for the Financial Report

The Directors are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the PF&A Act. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on my audit. I conducted my audit in accordance with Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Corporation's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

My opinion does *not* provide assurance:

- about the future viability of the Corporation,
- that it has carried out its activities effectively, efficiently and economically, or
- about the effectiveness of its internal controls.

Independence

In conducting this audit, the Audit Office of New South Wales has complied with the independence requirements of the Australian Auditing Standards and other relevant ethical requirements. The PF&A Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their role by the possibility of losing clients or income.

A handwritten signature in black ink, appearing to read 'Marie Spriggins'.

M T Spriggins
Director, Financial Audit Services

20 October 2008
SYDNEY

State Water Corporation

Income Statement

For the Year Ended 30 June 2008

		2008 \$'000	2007 \$'000
Continuing operations			
Revenue	3(a)	69,262	72,536
Expenses, excluding finance costs and superannuation actuarial gains/(losses)	3(b)	(66,833)	(60,443)
Finance costs	3(d)	(2,448)	(2,533)
Profit before income tax and superannuation actuarial gains/(losses)		(19)	9,560
Income tax on profit before superannuation actuarial gains/(losses)	4(a)(b)	4	(117)
Profit before superannuation actuarial gains/(losses)		(15)	9,443
Superannuation actuarial gains/(losses)	26	(7,295)	5,006
Income tax on superannuation actuarial gains/(losses)	4(b)	2,189	(1,501)
Profit/(loss) for the year		(5,121)	12,948
Attributable to: Equity holders of State Water		(5,121)	12,948

State Water Corporation

Balance Sheet

30 June 2008

	Note	2008 \$'000	2007 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	5	11,371	16,502
Trade and other receivables	6	28,131	27,936
Other	9	43	157
Total current assets		39,545	44,595
Non-current assets			
Property, plant and equipment	7	400,945	392,658
Intangible assets	8	1,622	1,044
Other assets	9	1,418	4,804
Total non-current assets		403,985	398,506
TOTAL ASSETS		443,530	443,101
LIABILITIES			
Current liabilities			
Trade and other payables	10	30,002	22,691
Current tax liabilities	4(c)	(505)	(505)
Dividend payable	16	4,497	11,884
Provisions	12	16,133	13,176
Other liabilities	13	3,124	374
Total current liabilities		53,251	47,620
Non-current liabilities			
Borrowings	11	39,055	39,197
Deferred tax liabilities	4(d)	15,863	18,056
Provisions	12	2,660	342
Other liabilities	13	127	191
Total non-current liabilities		57,705	57,786
TOTAL LIABILITIES		110,956	105,406
NET ASSETS		332,574	337,695
EQUITY			
Share capital (i)	14	-	-
Contribution by owners	15	300,510	300,510
Reserves		28,000	28,000
Retained earnings		4,064	9,185
TOTAL EQUITY		332,574	337,695

(i) Share capital comprises two fully paid \$1 ordinary shares totalling \$2 (2007: \$2)

State Water Corporation

Statement of Changes in Equity

For the Year Ended 30 June 2008

30 June 2008

	Note	Fully paid ordinary shares \$'000	Contributions by owners \$'000	Asset revaluation reserve \$'000	Retained earnings \$'000	Total \$'000
	Note	(i)				
Net gain on revaluation of system assets		-	300,510	28,000	9,185	337,695
Related income tax		-	-	-	-	-
Net income recognised directly in equity		-	-	-	-	-
Profit for the year		-	-	-	(5,121)	(5,121)
Dividends for the year	16	-	-	-	-	-
Sub-total		-	-	-	(5,121)	(5,121)
Balance at 30 June 2008		-	300,510	28,000	4,064	332,574

30 June 2007

	Note	Fully paid ordinary shares \$'000	Contributions by owners \$'000	Asset revaluation reserve \$'000	Retained earnings \$'000	Total \$'000
	Note	(i)				
1 July 2006		-	300,510	-	2,348	302,858
Prior year error	2	-	-	-	(364)	(364)
Net gain on revaluation of system assets		-	-	40,000	-	40,000
Related income tax		-	-	(12,000)	-	(12,000)
Net income recognised directly in equity		-	-	28,000	-	28,000
Profit for the year		-	-	-	12,948	12,948
Dividends for the year	16	-	-	-	(5,747)	(5,747)
Balance at 30 June 2007		-	300,510	28,000	9,185	337,695

(i) Share capital comprises two fully paid \$1 ordinary shares totalling \$2 (2007: \$2)

State Water Corporation

Cash Flow Statement

For the Year Ended 30 June 2008

	Note	2008 \$'000	2007 \$'000
Cash from operating activities:			
Receipts from customers		45,349	48,797
Payments to suppliers and employees		(50,586)	(51,604)
Receipt of grants and subsidies from NSW Government		22,845	27,446
Interest received		880	1,654
Interest and other costs of finance paid		(2,448)	(3,387)
Income taxes paid		-	(507)
Net cash provided by (used in) operating activities	17	16,040	22,399
Cash flows from investing activities:			
Proceeds from sale of property, plant and equipment		1,812	130
Proceeds from government grants in respect of property, plant and equipment		4,913	-
Acquisition of property, plant and equipment		(20,367)	(14,177)
Net cash used by investing activities		(13,642)	(14,047)
Cash flows from financing activities:			
Proceeds from borrowings		-	-
Repayments of borrowings		(142)	(22,062)
Dividends paid to equity holders of the corporation		(7,387)	(1,800)
Net cash from financing activities		(7,529)	(23,862)
Net cash increase (decrease) in cash and cash equivalents		(5,131)	(15,510)
Cash and cash equivalents at beginning of year		16,502	32,012
Cash and cash equivalents at end of year	5	11,371	16,502

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

Corporate Information

State Water Corporation (State Water) is a statutory State Owned Corporation under the provisions of the *State Owned Corporations Act 1989* and was corporatised under the *State Water Corporation Act 2004* on 1 July 2004. State Water's capital comprises two fully paid \$1.00 ordinary shares beneficially owned by the Government of NSW.

State Water's principal function is to capture, store and release bulk water for the benefit of entitlement holders, for flood management, and to meet the needs of the environment in an efficient, effective, safe and financially responsible manner. Entitlement holders include regional communities, primary producers, irrigators, industrial users and local utilities in regional NSW. These functions require that State Water construct, maintain and operate water management works and any other functions conferred or imposed on it by virtue of the operating licence granted to it and under any applicable requirements under the *Water Management Act 2000* or the *Water Act 1912*.

In addition, State Water is a water supply authority under the provisions of Chapter 6 of the *Water Management Act 2000* for the purpose of administering the Fish River Water Supply scheme.

State Water also has a business relationship with the Murray-Darling Basin Commission (MDBC). The MDBC was established as a co-operative venture between the NSW, Victorian, South Australian, Queensland and Commonwealth of Australian governments under the Murray-Darling Basin Agreement to manage the Murray-Darling Basin water flow and usage. Under a formula set out by that agreement, each of the participating governments directly funds the operating and capital costs of the MDBC.

The MDBC costs form part of the submission that is made to the New South Wales Independent Pricing and Regulatory Tribunal (IPART) for its determination of pricing of water charges to bulk water customers located within the area of operations of the MDBC. The proportion that MDBC costs represent of the total costs covered by the IPART determinations is then applied to revenue from water charges to bulk water customers located within the area of operations of the MDBC, and this amount is passed on to NSW Treasury to help meet the NSW Government's direct funding obligations under the Murray-Darling Basin Agreement. State Water also rents accommodation properties from MDBC for use by its on-site employees.

The MDBC contracts State Water to undertake regular maintenance of the assets it controls, as well as repair work and construction of new or replacement assets. In addition, State Water rents equipment to the MDBC.

1 Statement of Significant Accounting Policies

(a) Basis of Preparation

The financial report is a general purpose financial report which has been prepared in accordance with applicable Australian Accounting Standards, mandates issued by NSW Treasury and other mandatory and statutory reporting requirements of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2005* and the *State Owned Corporations Act 1989*.

In preparing this financial report, the accounting policies described below are based on the requirements applicable to for-profit entities under this financial reporting framework.

The financial report has been prepared on the historical cost basis, except for property, plant and equipment, which are at the values as stated in Note 1(j). Cost is based on the fair values of the consideration given in exchange for assets.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000), unless otherwise indicated.

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

1 Statement of Significant Accounting Policies continued

(b) Determination of for-profit or not-for-profit

State Water has applied its judgment in assessing whether it meets the definition of a for-profit or not-for-profit entity for the purposes of the accounting standards. State Water has concluded that the business is a for-profit entity, taking into account the objectives of corporatisation, the governance framework applied, the application of pricing principles to achieve full cost recovery on a commercially sustainable basis, and the registration of State Water Corporation under the National Tax Equivalent Regime.

(c) Statement of Compliance

The financial report complies with Australian Accounting Standards, which include Australian Equivalents to International Financial Reporting Standard (AEIFRS). Compliance with AEIFRS ensures that the financial report, comprising the Financial Statements and Notes thereto, complies with International Financial Reporting Standards.

The accounting policies set out below have been applied consistently to all periods presented in the financial report. Where relevant, the accounting policy applied to the comparative period presented has also been disclosed.

(d) Revenue

Revenue is income that arises in the course of ordinary activities. Revenue is recognised to the extent that it is probable that the economic benefits will flow to State Water and the revenue can be reliably measured. The following recognition criteria must be met before revenue is recognised:

Rendering of services

State Water delivers bulk water to its customers under the conditions of their licences. Revenue from rendering of these services comprises both fixed and variable charges. The fixed component is charged according to each licence entitlement, whereas the variable component is charged according to actual consumption and use by the licence holder. The fixed entitlement charges are recognised proportionally on a monthly accrual basis. The variable usage charges are recognised on an accrual basis when the services are provided. Prices for water delivery are subject to price regulation by IPART.

State Water also provides infrastructure operation, maintenance and construction services to the MDBC and other clients. Revenue for work done by State Water on the operations and assets of other entities and on the provision of contracted services, as covered by service agreements, is recognised on an accrual basis when the services are provided. Revenue for construction services is recognised on an accrual basis by reference to the stage of completion of the contract at the reporting date.

Ancillary services are those provided to customers for administering entitlement transfers, for providing the financial status of licences in preparation for licence sale or transfer, and for the use of water for hydro power generation. Revenue is recognised in respect of these services on an accrual basis as the services are provided.

State Water also provides consultancy services to clients, primarily relating to surveying. Revenue from these services is recorded as sundry revenue and is recognised on an accrual basis when the services are provided.

Government grants and subsidy revenue

Under the funding model agreed to in setting up State Water as a State Owned Corporation and negotiated with the Shareholding Ministers, State Water receives government funding for agreed activities and for past and future capital investment so as to achieve an expected commercial rate of return from its operations.

Grants and subsidies that are receivable for expenses incurred or revenue foregone are recognised as revenue in the Income Statement on a systematic monthly accrual basis over the periods for which the grant or subsidy is to apply. Government grants are recognised as revenue at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

1 Statement of Significant Accounting Policies continued

(d) Revenue continued

The share of the Government's contributions is determined by IPART through its Bulk Water Pricing Determinations. The amounts of the Government contribution to operations and of the Government operating subsidies are negotiated annually with the Shareholding Ministers through the Statement of Corporate Intent (SCI). There is no provision for adjustment to the quantum of the negotiated amounts. The revenue is accordingly recognised on a monthly accrual basis.

Grants and subsidies that are received in advance of expenses incurred or revenue foregone are recognised as revenue in the income statement when the expenses are actually incurred or the revenue actually foregone.

Interest revenue

Interest revenue is recognised as the interest accrues using the effective interest method which uses the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument.

Leases

Revenue from leases (for foreshore land, cottages and hydro-electric plant) is recognised on a straight-line basis over the period of occupancy.

Rental revenue

Rental revenue is recognised on a straight-line basis over the lease term.

Other Income

Other income comprises gains arising from the disposal of recognised assets and liabilities.

Disposal of property, plant and equipment, assets held for sale and intangible asset

The net gain or loss on disposal of these assets is calculated as the difference between the carrying amount of the assets at the time of disposal and the net proceeds on disposal and is recorded in the Income Statement in the period of disposal. Gains or losses arising from the sale of property holdings are recognised at the date that the risks and rewards of ownership have been transferred to the purchaser and State Water has no continuing involvement with the relevant property. This is normally considered to be when legal title passes to the purchaser at the date of settlement. Net losses on disposal are reclassified as expenses.

(e) Expenses

Expenses are recognised in the Income Statement when incurred. Expenses include items that are incurred in the course of ordinary activities as well as various losses that arise from either the disposal of recognised assets or the re-measurement of some items at the reporting date that are required to be taken to the Income Statement under the relevant Australian Accounting Standards. An example of a loss is that arising from the disposal of property, plant and equipment.

Expenses are disclosed in this financial report by nature. (Refer Note 3(b)).

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

1 Statement of Significant Accounting Policies continued

(e) Expenses continued

Depreciation and amortisation

Items of property, plant and equipment (including buildings but excluding freehold land) and intangible assets with finite lives, such as computer application software and development costs, are depreciated/amortised on a straight-line basis over their estimated useful lives, making allowance where appropriate for residual values. The lives are reviewed annually, taking into account assessments of asset condition, commercial and technical obsolescence and expected normal wear and tear. The normal life expectancies of major asset categories are as follows:

Depreciable asset categories	Number of years
Property, plant and equipment	
Buildings - cottages and dwellings/office buildings/accommodation	2 - 92
Dams - structure/concrete works	200
Dams - other civil components	100 - 200
Dams - mechanical/electrical components	30 - 200
Weirs and regulators - concrete components & fountain pilings	100
Weirs and regulators - steel structural components	50 - 100
Channels and structures	5 - 15
Furniture and fitout	3-7
Scientific instruments	4-15
Marine craft	3-20
Computer equipment	2-6
Plant and equipment	3-30
Motor vehicles	5 - 15
Intangible assets	
Computer application software	5

Work in progress is not depreciable until the assets are brought into service and are available for use.

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

1 Statement of Significant Accounting Policies continued

(e) Expenses continued

Operating lease expenses

Payments made under operating leases are representative of the pattern of benefits derived from the leased assets and accordingly they are recognised as an expense in the Income Statement in the periods in which they are incurred. In most cases, recognition as an expense occurs on a straight-line basis over the term of the lease. Lease inducements are recognised in the Income Statement on a straight-line basis over the lease term in line with lease rental expense.

Borrowing costs

Interest and other borrowing costs, such as Government Guarantee fees payable in respect of State Water's borrowings, are expensed as incurred within finance costs in the Income Statement.

(f) Taxation

Income Tax

State Water is subject to notional taxation in accordance with the *State Owned Corporations Act 1989*. An equivalent or notional income tax is payable to the NSW Government through the Office of State Revenue. Taxation liability is assessed according to the National Tax Equivalent Regime (NTER). The NTER closely mirrors the *Commonwealth Income Tax Assessment Act 1936* (as amended) and is administered by the Australian Taxation Office (ATO). State Water applies the Balance Sheet method of tax-effect accounting to determine income tax expense and current and deferred tax assets and liabilities.

Income tax expense on the operating result for the reporting period comprises both current and deferred tax. Income tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case the income tax is itself recognised directly in equity.

Current tax is the expected tax payable or receivable on the taxable income for the reporting period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable or receivable in respect of previous years.

Deferred tax represents future assessable or deductible amounts that arise due to temporary differences existing at the reporting date between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes (their tax bases). Deferred tax balances are not recognised for temporary differences that arise from the initial recognition of assets or liabilities that affect neither accounting profit nor taxable profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. This policy is consistent with prior years and has been exercised this year when reviewing the substantial tax losses generated by special write-off of water facilities.

Deferred tax assets and liabilities provided are based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates (and tax laws) enacted or substantively enacted at the reporting date.

Current and deferred tax assets are offset with current and deferred tax liabilities respectively where State Water intends to settle current tax assets and liabilities on a net basis.

Goods and Services Tax

Revenues, expenses and assets are recognised net of Goods and Services Tax (GST), except where the amount of GST incurred by State Water as a purchaser is not recoverable from the ATO. In these circumstances, GST incurred

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

1 Statement of Significant Accounting Policies continued

(f) Taxation continued

is recognised as part of the cost of acquisition of the asset or as part of an item of expense.

Receivables, payables and accruals are stated with the amount of GST included. The net amount of GST recoverable from the ATO is included as a current asset or liability in the Balance Sheet. Cash flows of GST are included in the Cash Flow Statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as cash flows from operating activities.

Commitments are disclosed inclusive of GST where applicable.

(g) Cash and Cash Equivalents

Cash and cash equivalents in the Balance Sheet comprise cash at hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of less than three months. State Water currently has no bank overdrafts.

(h) Investments

Investments in marketable securities with a maturity period of three months or less are classified as cash and cash equivalents (see Note 1(g) above) and those with a maturity period longer than three months are classified as Investments. This includes State Water's investment in the NSW Treasury Corporation (T-Corp) hourglass facility.

Those with a maturity period greater than 12 months are classified under Non-current Assets. All others are classified under Current Assets. State Water currently has no investments other than those included in cash and cash equivalents.

(i) Trade and other receivables

Trade and other receivables, which generally have settlement terms of 30 days from the date of issue of the invoice, are recognised and carried at original invoice amount, less any impairment losses recognised by way of an allowance for doubtful debts that represents specific amounts considered to be either doubtful or uncollectible. Recognition at original invoice amount is adopted as this is not materially different to amortised cost, given the short-term nature of these receivables.

The allowance for doubtful debts is recognised when collection of the full amount invoiced is considered to be no longer probable after due consideration of factors such as past recoverability experience, prevailing economic conditions and other knowledge including seasonal conditions and current allocation levels. Known bad debts are written off against the allowance as and when identified.

(j) Property, Plant and Equipment

Acquisitions and Capitalisation

All items of property, plant and equipment acquired by State Water are recognised initially at the cost of acquisition. Subsequent to this initial recognition, each class of property, plant and equipment is valued in accordance with State Water's valuation policies (see Asset Valuations below).

Cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire the asset, including costs that are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended. Government grants related to assets are deducted in arriving at the carrying amount of the asset that is the subject of the grant.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and revenues at their fair value at the date of acquisition. Fair value means the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

1 Statement of Significant Accounting Policies *continued*

(j) Property, Plant and Equipment *continued*

Expenditure of the following type that will provide future economic benefit and which exceed the thresholds set will be recognised as an asset and capitalised:

- acquisition costs of new assets or components of assets including water infrastructure, plant and equipment, land and buildings or other non-current assets
- acquisition costs of replacement assets
- acquisition costs of asset enhancements and upgrades
- expenditure on major renewals or refurbishments which extend the economic life or service potential of the existing asset.

Each river valley and all its specialised infrastructure assets form a river system asset, and are treated as a primary asset with components. Specialised infrastructure assets are components of the relevant river system primary asset, and are referred to as system assets. State Water's use of the river system delivers the economic benefit.

In respect of system assets constructed by State Water for its own use, cost includes:

- materials used in construction
- direct labour and oncosts
- contractors' services
- major inspection costs
- an estimate, where relevant, of the costs of dismantling, decommissioning and removing the asset and restoring the site on which it is located, and
- an appropriate proportion of overheads, except those that are for administration or are general in nature.

In respect of major inspections undertaken for system assets, the cost of the inspection is capitalised as part of the cost of the asset if it is probable that future economic benefits will flow to State Water and the cost can be measured reliably.

Any inspection cost so capitalised is recognised as a component asset and depreciated over the period of time until the next inspection. When each major inspection cost is capitalised, any remaining cost or estimated cost of the previous inspection is de-recognised.

The cost of dismantling, decommissioning and removing an asset and restoring the site on which it is located is capitalised when a decision to decommission the asset has been made. This gives rise to the recognition of a corresponding liability as a provision. (Refer also Note 1(q)).

System assets are capitalised only when they are brought into use. While an asset is being constructed or is not yet available for the purpose to which it is to be put, the expenditure is treated as Work-in-Progress and recognised as such as part of Property, Plant and Equipment in the Balance Sheet. Depreciation is not raised until an asset is brought into use.

Thresholds are applied for the capitalisation of expenditure according to asset classes as follows:

- Computers and electrical \$2,000

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

1 Statement of Significant Accounting Policies *continued*

(j) Property, Plant and Equipment *continued*

- Other plant and equipment \$5,000
- Initial acquisition of infrastructure \$10,000
- Subsequent costs - Major enhancements or upgrades \$20,000

Asset valuations

Following initial recognition at cost, each class of property, plant and equipment is stated in the Balance Sheet at fair value less any subsequent accumulated depreciation and accumulated impairment losses. Adopting the fair value model for property, plant and equipment assets, rather than the cost model is a requirement of NSW Treasury's mandates in respect of options to be adopted by NSW public sector entities under AEIIFRS. For some classes of assets, re-measurement to fair value is undertaken by way of an asset revaluation. Valuations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from the asset's fair value at the reporting date. The valuation basis that is representative of fair value in respect of each class of assets is detailed below.

In respect of classes of assets for which there exists an active market, fair value is the amount for which the assets could be exchanged between knowledgeable and willing parties in an arm's length transaction, having regard to the highest and best use of the assets for which other parties would be willing to pay to obtain the most advantageous price or highest possible value.

In respect of classes for which there is no active market due to the specialised nature of the assets, fair value is determined as the estimated depreciated current replacement cost of the assets.

System Assets

Fair value for specialised assets is determined as their estimated depreciated current replacement cost.

Generally, depreciated replacement cost is based on estimates of Modern Engineering Equivalent Replacement Asset (MEERA) values on a whole of facility basis and takes into account condition-based assessments of the assets and their asset lives to determine their remaining service potential.

Subsequent to determining their fair value, specialised infrastructure assets are tested for impairment to ensure their carrying amount is not in excess of their recoverable amount. The recoverable amount is assessed on the basis of the expected cash flows that will be received from the assets, employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

For further details regarding the key assumptions used in determining the recoverable amount, refer Note 7 : Property, Plant and Equipment.

Land assets

A current project exists to identify all title particulars of all parcels of land that are under State Water's control. This land has come to be controlled State Water either from the original Transfer Order from the NSW Government to State Water (for the operational land, land under infrastructure and land subject to inundation), or from an Instrument of Delegation which grants control of foreshore lands.

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

1 Statement of Significant Accounting Policies *continued*

(j) Property, Plant and Equipment *continued*

Operational Plant and Equipment

Operational plant and equipment, including plant, vehicles, furniture and fittings, office equipment, computer hardware and leasehold improvements are recognised at the cost of acquisition. These assets are not revalued as it is considered that their depreciated net carrying amount closely approximates their fair market value less costs to sell.

Asset Revaluation Reserve

For each class of property, plant and equipment subject to valuation, revaluation increments are credited to an asset revaluation reserve within equity in the Balance Sheet.

Where a revaluation decrement or an impairment loss reverses a revaluation increment previously credited to, and which is still in the balance of, the asset revaluation reserve, the revaluation decrement or impairment loss is debited to that reserve. In other cases, the decrement or impairment loss is recognised as an expense in the Income Statement.

Upon disposal of system assets any revaluation reserve balance relating to the particular asset being disposed is transferred to retained earnings.

The asset revaluation reserve relates to property, plant and equipment and comprises after tax revaluation increments and decrements arising from the revaluation of these assets and any applicable impairment write downs to recoverable amount.

(k) Intangible Assets

Intangible assets are identifiable non-monetary assets without substance. Intangible assets are capitalised initially at cost. Following initial recognition, the cost model is applied as there is no active market that can be referenced for performing revaluations to a market-based fair value.

Useful lives of intangible assets are assessed to be either finite or indefinite. Where they are determined to have finite lives, they are amortised on a straight-line basis and the expense is recognised as part of the depreciation and amortisation line item in the Income Statement. These assets are recognised in the Balance Sheet at cost less accumulated amortisation and accumulated impairment losses, where applicable. Computer application software and development costs are typical assets that come under this category.

Where intangible assets are determined to have indefinite lives they are not amortised. However they are tested for impairment as part of the cash-generating unit test applied by State Water in conjunction with other assets. Any resulting impairment losses are recognised as an expense in the Income Statement. Any reversals of impairment losses are also recognised in the Income Statement. These assets are recognised in the Balance Sheet at cost less accumulated impairment, where applicable. Easements over property are typical assets that come under this category.

Research and Development

Expenditure on research activities, undertaken with the prospect of obtaining new technical knowledge or understanding, is recognised as an expense in the Income Statement when incurred.

Expenditure on development activities, whereby research findings are applied to the development of substantially new or improved products or processes is capitalised if the product or process is significant, is technically or commercially feasible, will provide future economic benefits and there are sufficient resources to complete development. The expenditure capitalised may comprise direct labour, materials, other costs directly attributable to the development activity and an appropriate proportion of overheads. Such expenditure is tested for impairment at each reporting date, whether or not the intangible asset arising from the expenditure is available for use or in progress. Other development expenditure is expensed in the Income Statement when incurred.

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

1 Statement of Significant Accounting Policies continued

(I) Leased assets

Leases of property, plant and equipment where State Water assumes substantially all the risks and rewards of ownership are classified as finance leases. State Water does not have any finance leases.

Leases of property, plant and equipment where the lessor retains substantially all of the risks and rewards of ownership are classified as operating leases. Payments made under an operating lease are recognised in accordance with the accounting policy in Note 1(e).

(m) Impairment of Assets

At each reporting date, the carrying values of assets (other than deferred tax assets) are reviewed to determine whether there is an indication of impairment. If any such indication exists, a formal estimate of their recoverable amount is made. (Refer below - Calculation of recoverable amount) Where the carrying amount of an asset is greater than its recoverable amount, the asset is considered impaired.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised as an expense in the Income Statement, unless an asset has previously been revalued through the asset revaluation reserve, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised in the Income Statement. Impairment losses recognised in respect of a cash-generating unit are allocated to reduce the carrying amount of the assets in the unit on a pro rata basis.

Calculation of recoverable amount

Financial assets

The recoverable amount of receivables stated at amortised cost is calculated at the present value of estimated future cash flows, discounted at the original effective interest rate determined at initial recognition of these financial assets. Receivables with a short duration are not discounted. Impairment in respect of these receivables is determined in accordance with the accounting policy in Note 1(i).

Other assets

The recoverable amount of other assets, such as system assets and development costs, is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows from the continuing use and ultimate disposal of an asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash flows that are largely independent from other assets, the recoverable amount is determined for the cash generating unit to which it belongs. For specific details of the assumptions behind the cash generating unit test for system assets, refer to Note 7(a).

Reversals of impairment

Financial assets

An impairment loss in respect of receivables stated at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment was recognised.

Other assets

Impairment losses in respect of other assets, such as system assets and development costs, are reversed if there has been a change in the estimates used to determine the recoverable amount. Impairment losses are reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

1 Statement of Significant Accounting Policies continued

(n) Trade and other payables

Trade and other payables are recognised in the Balance Sheet at cost, which is considered to approximate amortised cost due to their short-term nature. They are not discounted as the effect of discounting would not be material for these liabilities.

Trade and other payables are recognised when goods or services have been received and an obligation to make future payment arises, and are usually settled within 30 days from the date of the invoice unless other terms are negotiated with the creditor.

(o) Borrowings

Interest bearing financial liabilities or borrowings raised by the NSW Treasury Corporation on behalf of State Water are recognised initially at cost, being the fair value of the consideration received less any transaction costs associated with the borrowings. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method.

Amortised cost is calculated by taking into account any issue costs and any differences between cost and the final redemption value, such as discounts or premiums. These differences are amortised to the Income Statement as part of finance costs over the period of the borrowings on an effective interest basis.

Gains or losses are recognised in the Income Statement when liabilities are derecognised, such as through a debt restructuring, as well as through amortisation process.

(p) Dividends payable

A liability for dividend payable is recognised in the reporting period in which the dividend is declared. This is considered to be the period in which the dividend has been proposed, targeted and agreed with State Water's voting shareholders through State Water's SCI.

(q) Provisions

Provisions are liabilities of uncertain timing or amount. A provision is recognised when there is a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the obligation is to be settled more than 12 months after the reporting date and the effect is material, a provision is determined by discounting the expected future cash flows required to settle the obligation at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. This is usually the risk-free rates on Government bonds that closely match the expected future payments, except where noted below. If the obligation is due to be settled less than 12 months after balance date, the provision is stated at the best estimate available and is not discounted.

When some or all of a provision is expected to be reimbursed from a third party, the reimbursement receivable is recognised as an asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Income Statement net of any reimbursement.

Provisions recognised in the Balance Sheet comprise some employee benefits and other provisions.

Employee benefits

All liabilities for employee benefits are recognised in the Balance Sheet. Employee benefits comprise short-term benefits, other long-term benefits, termination benefits and post-employment benefits.

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

1 Statement of Significant Accounting Policies *continued*

(q) Provisions *continued*

Short-term employee benefits

Short-term employee benefits are benefits (other than termination benefits) that fall due wholly within 12 months after the end of the period in which employees render the related service. They include wages and salaries, sick leave and annual leave. The majority of short-term employee benefits that are payable at the reporting date are measured on an undiscounted basis, except for annual leave that is not expected to be taken within 12 months after period end. Management policy dictates that all employees annual (recreation) leave balances should be below 30 days. If it is not, plans must be put in place to achieve this. The accounting policy adopted and subsequent discounting reflects that practical impacts of the management policy relating to recreation leave.

Expenses for wages and salaries are recognised as services are rendered by employees. Expenses for annual leave are recognised when employees render service that increases their entitlement to future payment of annual leave. Expenses for sick leave, which is non-vesting, are recognised when the absences occur.

Liabilities for wages and salaries (and the associated on-costs) are included within trade and other payables while liabilities for annual leave, where applicable, are included within provisions in the Balance Sheet.

Other long-term employee benefits

Other long-term employee benefits are benefits (other than termination benefits and post-employment benefits) that do not fall due wholly within 12 months after the end of the period in which the employees rendered the related service. In State Water's case, this refers specifically to employee benefits for long service leave.

The liability for long service leave at the reporting date is the present value of the future benefit that employees have earned in return for their service in the current and prior reporting periods, less the fair value of any related assets at that date. The present value of the future benefit is calculated using the projected unit credit method. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up to the final obligation. The discount rate used is the yield at balance date on Government bonds that have maturity dates approximating to the terms of the long service leave obligations.

The liability and expense are recognised when employees render service that increases their entitlement to future benefit for long service leave. The expense is recognised as one net amount that encompasses a number of components, such as current service cost and interest cost.

Termination benefits

Termination benefits are employee benefits payable as a result of an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy in exchange for those benefits.

The liability for redundancy benefits for specific employees that have accepted redundancy is measured at the calculated entitlement that will be paid to those employees. This is in the following reporting period and thus is not discounted.

The liability for redundancy benefits for employees that are subject to a restructuring program is recognised when a detailed formal plan for the restructuring exists and when a valid expectation in those affected has been raised. The current restructuring program that is subject to a detailed formal plan concludes on 31 October 2008, and as such provisions adopted have not been discounted.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) that are payable after the completion of employment. In the case of State Water, this refers specifically to benefits provided to employees and former employees through superannuation schemes.

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

1 Statement of Significant Accounting Policies continued

(q) Provisions continued

Defined contribution superannuation scheme

State Water contributes to defined contribution superannuation schemes in accordance with Superannuation Guarantee Contribution legislation and employment agreements. Obligations for contributions to these schemes are recognised as an expense in the Income Statement as incurred. The liability recognised at balance date represents the contribution to be paid in the following month.

Defined benefit superannuation scheme

State Water contributes to three defined benefit superannuation schemes in the NSW public sector Pooled Fund. These are: State Superannuation Scheme (SSS), State Authorities Superannuation Scheme (SASS) and State Authorities Non-contributory Superannuation Scheme (SANCS).

State Water's net obligation in respect of these schemes is calculated separately for each scheme by estimating the future benefit that employees have earned in return for their service in the current and previous reporting periods. That benefit is discounted to determine its present value, and the fair value of any scheme assets is deducted.

The discount rate is the yield at the reporting date on Government bonds that have maturity dates approximating to the terms of State Water's obligations. Calculations are performed by the Pooled Funds' actuary using the projected unit credit method and are advised to individual agencies for recognition and disclosure purposes in their financial reports.

Where the present value of the defined benefit obligation in respect of a scheme exceeds the fair value of the scheme's assets, a liability for the difference is recognised in the Balance Sheet. Where the fair value of a scheme's assets exceeds the present value of the defined benefit obligation for that scheme, an asset is recognised in the Balance Sheet.

Actuarial gains and losses are recognised in the Income Statement in the year in which they occur.

Other provisions

Employee benefit on-costs

Costs that are a consequence of employing employees, but which are not employee benefits themselves, such as payroll tax, are recognised as liabilities and expenses when the employment to which they relate has occurred.

Payroll tax payable at balance date in relation to wages and salaries paid during the previous month is recognised as part of trade and other payables in the Balance Sheet, consistent with the classification of any recognised liability for wages and salaries. Payroll tax payable in respect of annual leave or long service leave payments to be made in the future is recognised as part of provisions, consistent with the classification of liabilities for annual leave and long service leave.

Provisions for payroll tax on unpaid annual leave and long service leave benefits are measured at the reporting date based on payroll tax laws that have been enacted or substantially enacted at the reporting date and take into consideration factors such as expected resignations or terminations that would give rise to payroll tax obligations.

Restoration of leased premises

Restoration costs in respect of leased premises are those costs that State Water must incur under the terms of the lease to restore the relevant leased premises back to their original state at the end of the lease term.

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

1 Statement of Significant Accounting Policies continued

(q) Provisions continued

Provisions for restoration of leased premises are calculated based on discounted future cash flows using the yield on Government bonds, which is a pre-tax rate that State Water considers to be representative of current market assessments of the time value of money and the risks specific to the liability.

Provisions are recognised at the inception of a lease when such restoration is a condition of the lease. Unwinding of the discount is recognised as a finance cost in the Income Statement, while the restoration costs are separately expensed.

Fringe benefits tax

This provision is used to recognise State Water's obligation in respect of fringe benefits tax for providing employees with fringe benefits that are covered by *The Fringe Benefits Tax Assessment Act 1986*.

(r) Deferred government grants

Grants that are received, and there is reasonable assurance that all attaching conditions will be complied with, are matched to the operating expenses or asset expenditure for which the grants are to apply. The proportion that cannot be matched in this way is recognised as deferred government grants in the financial statements. Deferred government grants related to assets is the proportion of grant monies received for which no corresponding capital expenditure has been incurred. Deferred government grants related to income is the proportion of grant monies received for which no corresponding operating expenditure has been incurred.

(s) General insurance

State Water maintains a mix of external insurance policies. These are managed through the NSW Treasury Managed Fund on behalf of State Water. The treatment of risks and associated liabilities are determined in conjunction with independent insurance advisors and loss adjusters.

(t) Segment reporting

State Water operates in one industry, being the delivery of bulk water in NSW. As such, State Water has only one business segment as well as one geographical segment in accordance with *AASB 114 Segment Reporting*, and this is reported in the financial statements.

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

1 Statement of Significant Accounting Policies continued

(u) Accounting standards issued but not yet operative

At the reporting date a number of Australian Accounting Standards and Urgent Issue Group (UIG) Interpretations had been issued but not yet operative and have not been early adopted by State Water. The following is a list of these standards and interpretations and a description of the possible impact on the financial statements in the first period of their initial application.

AASB 8 AASB 2007-3	Operating Segments Amendments to Australian Accounting Standards [AASB's 5, 6, 102, 107, 119, 127, 134, 136, 1023 & 1038] AASB 8 locates in one place all disclosures relating to operating segments. Consequential amendments to other existing standards are identified in AASB 2007-3. These standards will not affect any of the amounts recognised in the financial statements but may impact the type of information disclosed in relation to State Water's operating functions. These standards are operative for annual reporting periods beginning on or after 1 January 2009.
AASB 101 AASB 2007-6	Presentation of Financial Statements Amendments to Australian Accounting Standards arising from AASB 101 AASB 101 prescribes the basis for presentation of general purpose financial reports, to ensure comparability both with the entity's financial reports of previous periods and with the financial reports of other entities. The changes to this standard will not affect any of the amounts recognised in the financial statements but may change how they are disclosed. This standard is operative for annual reporting periods beginning on or after 1 January 2009.
AASB 123 AASB 2007-6	Borrowing Costs Amendments to Australian Accounting Standards [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116, AASB 138] Changes to AASB 123 require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use. All other borrowing costs are immediately recognised as expenses. Consequential amendments to other existing standards are identified in AASB 2007-6. These standards are operative for annual reporting periods beginning on or after 1 January 2009. To date State Water has not borrowed directly for the acquisition, construction or production of qualifying assets. However, for the first year of the operation of AASB 123, State Water's current SCI anticipates an increase in borrowing in order to construct qualifying assets which will lead to a capitalising of the borrowing costs.

The following Australian Accounting Standards and UIG Interpretations have no impact on any disclosure or reporting by State Water as they relate to transactions or structure that are not undertaken or not applicable to it:

AASB 1	First-time Adoption of Australian Equivalents to International Financial Reporting Standards
AASB 3 AASB 127 AASB 2008-3	Business Combinations Consolidated and Separate Financial Statements Amendments to Australian Accounting Standards [AASB's 1, 2, 4, 5, 7, 101, 107, 112, 114, 116, 121, 128, 131, 132, 133, 134, 136, 137, 138 & 139 and Interpretations 9 & 107]
AASB 1004	Contributions
AASB 1049	Whole of Government and General Government Sector Financial Reporting
AASB 1050	Administered Items
AASB 1051	Land under Roads
AASB 1052	Disaggregated Disclosures
AASB 2007-9	Amendments to Australian Accounting Standards arising from the Review of AAS's 27, 29 and 31
AASB 2008-1	Amendments to Australian Accounting Standards - Share-based Payments: Vesting Conditions and Cancellations [AASB 2]

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

1 Statement of Significant Accounting Policies continued

(u) Accounting standards issued but not yet operative continued

AASB 2008-2	Amendments to Australian Accounting Standards - Puttable Financial Instruments and Obligations arising on Liquidation [AASB's 7, 101, 132, 139 & Interpretation 2
Interpretation 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities
Interpretation 12	Service Concession Arrangements
Interpretation 13	Customer Loyalty Programmes
Interpretation 129	Service Concession Arrangements: Disclosures
Interpretation 1038	Contributions by Owners Made to Wholly-Owned Public Sector Entities

(v) Key judgements

In compilation of these financial statements it has been necessary to make standard accounting judgement decisions on future events that impact upon the current reporting period. The following is a central reference point for the key judgements made, with information available in the referred note section.

Topic area	Section reference
Restructuring (voluntary redundancies)	Note 1(q) and Note 12.
Long Service (extended) Leave	Note 1(q)
Defined Superannuation Benefit Plans	Note 1(q) and Note 26
(Post employment benefits)	
Recoverable amount of cashflow generating assets	Note 1(m), Note 1(j) and Note 7

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

2 Prior year error

The prior year comparatives have been restated following the identification of a prior year error. This has been done in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. The restatement has impacted the Balance Sheet and the Income Statement.

The prior year error arose following a detailed review of Capital Work In Progress (Capital WIP), which was conducted as part of the end of year financial statements project for 2008. This review revealed that some transactions within Capital WIP were not in accordance with accounting standards and/or internal capitalisation policy (For example, a project relating to work on a dam that had a cumulative cost of less than \$10,000 was expensed, as it did not meet the capitalisation policy thresholds to qualify as an asset.) As some projects had balances carried forward from earlier periods, this resulted in an adjustment of \$0.364 million for 2006, and \$0.268 million for 2007.

	Previous at 30 June 2007 \$'000	Opening balance adjustments * \$'000	Adjustments 2007 \$'000	Adjusted at 30 June 2007 \$'000
Adjustment to balance sheet - 2007				
Property, plant and equipment	393,291	(364)	(268)	392,659
Total Non-current assets	399,139	(364)	(268)	398,507
Total assets	443,734	(364)	(268)	443,102
Net assets	338,327	(364)	(268)	337,695
Retained earnings	9,817	(364)	(268)	9,185
Total equity	338,327	(364)	(268)	337,695

*This adjustment relates to errors affecting 2005-06.

	Previous at 30 June 2007 \$'000	Adjustments \$'000	Adjusted at 30 June 2007 \$'000
Adjustment to income statement - 2007			
Expenses, excluding finance costs and superannuation actuarial gains	(60,175)	(268)	(60,443)
Profit before income tax and superannuation actuarial gains	9,829	(268)	9,561
Profit before superannuation actuarial gains	8,210	(268)	7,942
Profit for the year	13,216	(268)	12,948
Attributable to equity holders of State Water	13,216	(268)	12,948

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

3 Income and Expenses

Profit before income tax expense has been arrived at after including the following income and expenses:

(a) Revenue from continuing operations

	2008 \$'000	2007 \$'000
Revenue from rendering of services		
Storage and delivery of water		
Regulated water sources	31,001	32,571
Unregulated water sources	403	403
	31,404	32,974
Infrastructure operation, maintenance and construction		
Murray-Darling Basin Commission (i)	8,292	6,132
Other utilities	3,185	2,947
	11,477	9,079
Ancillary services	1,308	549
	1,308	549
Revenue from government grants and subsidies		
NSW Government contributions to operations (ii)	15,401	14,913
NSW Government transitional operating subsidy (iii)	6,701	10,587
NSW Government community service subsidy (iv)	333	1,946
Australian and NSW Government contributions to environmental improvement operations (v)	54	-
	22,489	27,446
Interest revenue		
NSW Treasury deposits	614	1,053
Bank deposits	159	292
Overdue accounts (vi)	107	229
	880	1,574
Other revenue		
Rental income	1,551	852
Other revenue	-	62
Gain on disposal of assets	153	-
	1,704	914
Total revenue from continuing operations	69,262	72,536

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

3 Income and Expenses continued

(a) Revenue from continuing operations continued

- (i) The MDBC contracts State Water to undertake operational activities and regular maintenance of the assets it controls, as well as repair work and construction of new or replacement assets.
- (ii) The NSW Government contributions to operations are provided to:
 - meet the costs of certain activities that satisfy community expectations, public benefit or government requirements, eg flood operations, environmental flows, stock and domestic supply.
 - finance on a commercial basis the agreed share of past capital investment along with any further capital investment necessary to address pre-1997 dam safety non-compliance conditions and other mandated capital improvements, eg for environmental compliance or to provide fishways at regulatory structures.
- (iii) The NSW Government transitional operating subsidy is provided to explicitly recognise the extent to which there is a shortfall between the agreed revenue requirements of State Water's operations and the revenues generated in an average water supply year from supplying customers and from the agreed Government contribution to operations.
- (iv) The NSW Government provided an additional subsidy to State Water for the 2007 reporting period that formed part of a package of drought assistance measures that it approved. In the case of State Water, this subsidy was provided to compensate State Water for waiving the fixed entitlement charges for general security irrigators in the Lachlan Valley for the 2006-2007 water year. This subsidy was not provided in the current reporting period.

The current year subsidy was for maintenance of unregulated weirs in rivers systems.

- (v) The NSW Government have provided a grant to State Water in respect of environmental improvement activities under the NSW Rivers Environmental Restoration Program. For further details refer to Note: 13 Other liabilities - Deferred government grants.
- (vi) Refer Note 6 : Trade and Other Receivables, Trade receivables - water.

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

(b) Expenses from continuing operations, excluding finance costs and actuarial superannuation gains/(losses)

	2008 \$'000	2007 \$'000
Employee related expenses, excluding actuarial superannuation gains/(losses) (iii)	28,031	23,252
Operational services expenses (iv)	12,870	12,842
Depreciation and amortisation expenses	7,349	6,013
Materials, plant and equipment expenses	2,925	2,411
Contribution to MDBC expenses (i)	5,617	6,824
Operating lease expenses (ii)	882	1,495
Electricity and other energy expenses	422	527
Travel expenses	3,010	2,988
Property expenses (excluding leases)	1,038	1,018
Data management expenses (excluding leases)	1,439	834
Other expenses from ordinary activities	3,083	2,244
Loss on disposal of assets	-	101
Impairment movement though the income statement: Receivables	167	(106)
Total expenses from continuing operations, excluding finance costs and superannuation actuarial gains/(losses)	66,833	60,443

(i) Contribution to MDBC expenses refers to a proportion of revenue from water charges to bulk water customers located within the area of operations of the MDBC, which is passed on to NSW Treasury to help meet the NSW Government's obligations under the Murray-Darling Basin Agreement to directly fund a proportion of the operating costs and states' share of capital costs of the MDBC.

(ii) Operating lease expenses represents minimum lease payments only.

(iii) Employee-related expense

Post-employment benefits expenses, excluding superannuation actuarial gain/(losses) *	1,197	1,716
Other employee-related expenses	25,589	25,287
	26,786	27,003
Less amount capitalised	2,209	3,748
	24,577	23,255
Termination benefits	3,454	-
Total employee related expenses, excluding superannuation actuarial gains/(losses), included in the income statement	28,031	23,255

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

* Refer Note 26 : Post employment benefits from superannuation plans

(iv) Operational services expenses

	2008 \$'000	2007 \$'000
Hydrometric services expenses	4,163	4,155
Professional, technical and trade services	7,423	6,154
Other	7,886	5,598
	19,472	15,907
Less amount capitalised	6,602	3,065
Total operational services expenses included in income statement	12,870	12,842

Operational services include a number of professional services provided to State Water for water quality monitoring, engineering services and support services.

(c) Post employment expenses

Defined benefit plans

Total expense advised by Pillar	7,216	(4,687)
Administration (i)	1,094	73
Other movements	8,310	(4,614)
Subtotal	81	109
Less amount capitalised	8,229	(4,723)

Defined contribution plans

Total expense	1,263	1,324
Less amount capitalised	143	194
Defined contribution plan expenses	1,120	1,130

(i) For further detail refer to Note 26: Post employment benefits from superannuation plans

(d) Finance costs

Government guarantee fee expense	196	262
Total interest expense	2,252	2,270
Total	2,448	2,532

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

4 Income taxes

(a) Income tax expense recognised in the income statement

	2008 \$'000	2007 \$'000
Deferred tax expense		
Originating and reversing temporary differences	(4)	117
Total income tax expense in income statement attributable to continuing operations	(4)	117
Deferred tax expense		
Tax expense arising from superannuation actuarial gain/loss	(2,189)	1,501
Total income tax expense in income statement attributable to superannuation actuarial gain/loss	(2,189)	1,501
Total income tax expense	(2,193)	1,618

(b) Reconciliation between income tax expense and pre-tax net profit

Income tax expense calculated using the domestic corporation tax rate of 30% (2007: 30%)	(6)	2,867
Add tax effect of:		
- Non-deductible expenses	2	2
- Timing differences	-	156
- Defined superannuation actuarial gain/(loss) adjustment	(498)	-
	(502)	3,025
Less tax effect of:		
- Deduction for water facility expenditure over 3 years	1,214	1,185
- Deferred tax liability adjustments	-	303
- Timing differences	(997)	-
- Utilisation of tax losses	(719)	1,537
Income tax attributable to entity	-	-

Superannuation actuarial gains/(losses)

Superannuation actuarial gains/(losses)	(7,295)	5,006
Income tax expense calculated using the domestic corporation tax rate of 30% (2007: 30%)	(2,189)	1,501
Decrease in tax expense due to:		
Income tax expense on superannuation actuarial gains/(losses)	(2,189)	1,501

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

4 Income taxes continued

(b) Reconciliation between income tax expense and pre-tax net profit

Presented in the balance sheet as follows:

	2008 \$'000	2007 \$'000
Deferred tax	15,863	18,056
Total	15,863	18,056

(c) Current tax liabilities

Current tax payable/(refund due)	(505)	(505)
Total	(505)	(505)

(d) Deferred tax balances

	Opening balance \$'000	Charged to income \$'000	Charged directly to equity \$'000	Total \$'000
2008				
Temporary differences				
Property, plant and equipment	(14,484)	(1,213)	-	(15,697)
Borrowings	-	-	-	-
Other creditors	122	22	-	144
Employee benefits	2,546	2,602	-	5,148
Provisions	58	12	-	70
Doubtful debts	61	50	-	111
Prior year SD40F	(6,359)	-	-	(6,359)
Total	(18,056)	1,473	-	(16,583)
Unused tax losses and credits				
Tax losses	-	719	-	719
Total	(18,056)	2,192	-	(15,864)

	Opening balance \$'000	Charged to income \$'000	Charged to equity \$'000	Closing balance \$'000
2007				
Temporary differences				
Property, plant and equipment	-	(2,484)	(12,000)	(14,484)
Other creditors	-	122	-	122
Employee benefits	-	2,546	-	2,546
Provisions	-	58	-	58
Doubtful debts	-	61	-	61
SD40F	-	(6,359)	-	(6,359)
Total	-	(6,056)	(12,000)	(18,056)

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

4 Income taxes continued

Presented in the balance sheet as follows:

	2008 \$'000	2007 \$'000
	\$	\$
Non-current liabilities		
Deferred tax	<u>15,863</u>	18,056
Total	<u>15,863</u>	18,056
5 Cash and Cash Equivalents		
Cash on hand	15	15
Bank operating accounts	<u>6,877</u>	2,883
Short-term investments maturing three months or less:		
Interest-bearing deposits	<u>4,479</u>	13,604
Cash and cash equivalents in Balance Sheet and in cash flow statement	<u>11,371</u>	16,502

State Water holds units in the following NSW Treasury Corporation Hour-Glass investment facility:

Facility	Investment sectors	Investment horizon
Cash facility	Cash, money market instruments	Up to 2 years

The unit price of the above facility is equal to the total fair value of the net assets held by the facility, divided by the total number of units on issue for that facility. Unit prices are calculated and published daily.

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

6 Trade and Other Receivables

	2008 \$'000	2007 \$'000
	Note	
CURRENT		
Trade receivables - water		
Outstanding water charges billed(i)	1,643	2,465
Accrued water charges (iv)	21,626	21,571
Subtotal	23,269	24,036
Provision for impairment of receivables	(328)	(170)
	22,941	23,866
Trade receivables - other (ii)		
Outstanding other service charges billed(ii)	1,169	1,019
Accrued other service charges	3,215	2,846
	4,384	3,865
Less: Allowance for doubtful debts	(43)	(33)
	4,341	3,832
Total trade receivables(iii)	27,282	27,698
Other receivables		
Goods and services tax refundable	849	208
Other receivables	-	30
	849	238
Total	28,131	27,936

(i) Trade receivables - water

State Water does not undertake any credit quality assessment or define any credit limits before accepting new water customers. Under the *Water Act 1912* (Water Act) and the *Water Management Act 2000* (WM Act) if the Department of Water & Energy issues a new licence or transfers an existing licence then that licensee automatically becomes a customer of State Water under the conditions of that licence.

Fees charged by State Water are a charge on the water access licence and as such the charges "run with" the licence, so that if a licence is sold or transferred the debt remains with the licence and the new holder is liable. The Water Act allows outstanding monies to be a charge on the land supplied with water, and if this charge is registered against the land title the debt will pass with the land to any future owner. Given these facts fees charged on a water access licence are largely perpetual and not standard commercial debt where only court action is available to collect a debt when a debt is considered doubtful, unless security is held against the debt. Generally prospective acquirers of a water access licence undertake searches on the licence they are seeking to acquire to determine whether there is any debt outstanding. If there is, the acquirer discounts the market value of the licence by the debt owing or arranges to settle the debt at the time of acquisition.

State Water has a number of tools available to encourage debt payment or to enhance its ability to recover debt over time. Under the conditions specified in the Water Act and with authority from the WM Act, interest is charged on outstanding water charges. The interest rate charged is the rate prescribed under the *Civil Procedure Act 2005*, and continues to apply until the outstanding water charges are fully paid.

State Water can take action to suspend a licence. The effect of suspension is that the licence cannot be operated or amended, i.e. it suspends the ordering of water, temporary trading etc. Under the WM Act the suspension must be lodged at Land and Property Information, but this is not required under the Water Act.

Under the WM Act State Water can also place a caveat on the licence through the Land & Property Information Register. This action is not available under the Water Act. The caveat will not obstruct the active use of the licence but will protect the existence of the licence and its value. State Water can also take action under the WM Act to sell a

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

6 Trade and Other Receivables continued

licence to recover a debt. Finally, State Water can also take normal court action to recover a debt.

Which action is taken is decided by particular circumstances, eg the cost/benefit of an action, or the assessed risk to the value of a licence, or the adjudged risk to recovery that suspension may produce by depriving a customer of the possible avenue (ie water for a crop) that may generate revenue sufficient to make payment of the debt.

Charges generally have settlement terms of 30 days from the issue of the invoice. Interest is currently charged at 10% p.a. (2007: average 9.5% p.a.) on all water charges that are past due. An allowance has been made for estimated irrecoverable trade receivable amounts arising from past water charges, determined by reference to State Water's assessment of current conditions and past default experience. The total allowance for impairment of \$0.328 million (2007: \$0.170 million) represents 20% of total trade receivable balances for water charges.

(ii) Trade receivables - other

State Water does not undertake any credit quality assessment or define any credit limits before accepting new non-water customers. 60% of non-water charges are to Commonwealth of Australia or State government departments, corporations or bodies, or to local government bodies and are considered low risk. A further 35% relate to hydro-electricity bodies and are considered low risk. The balance of charges to non-water customers is not significant.

Charges generally have settlement terms of 30 days from the issue of the invoice. Interest is not charged on outstanding non-water debtor balances. An allowance has been made for estimated irrecoverable trade receivable amounts arising from past non-water charges, determined by reference to State Water's past default experience. The total allowance for impairment of \$0.043 million (2007: \$0.033 million) represents 4% of total trade receivable balances for non-water charges.

(iii) Total trade receivables

Included in State Water's trade receivable balances are debtors with a carrying amount of \$0.618 million (2007: not available) which are past due at the reporting date for which State Water has not provided as there has not been a significant change in their assessed conditions and the amounts are still considered recoverable. Payment plans are in place for balances outstanding totalling \$0.029 million (2007: \$0.263 million).

(iv) Accrued water charges

Accrued water charges represent State Water estimates of entitlement and water delivery charges to State Water customers for the year ended 30 June 2008 that remained unbilled at that date. State Water bills customers in one of four geographic areas quarterly in arrears while the other three areas are billed annually in areas. State Water estimates are based on known entitlement charges and periodic measurements of water deliveries adjusted for additional usage to balance date. Billing of customers based on measured deliveries is completed after year end.

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

6 Trade and Other Receivables continued

(v) Provision for Impairment of Receivables

Movement in provision for impairment of trade receivables is as follows:

	Opening balance	Charge for the year	Amounts written off	Closing balance
Year ended 30 June 2008	\$'000	\$'000	\$'000	\$'000
Water charges	170	158	-	328
Other services charges	33	39	(29)	43
	203	197	(29)	371

Year ended 30 June 2007

Water charges	275	(105)	-	170
Other services charges	35	(2)	-	33
	310	(107)	-	203

Aged analysis

The ageing analysis of total trade receivables after impairment is as follows:

	2008 \$'000	2007 \$'000
Current	1,807	2,959
30 days	41	20
60 days	3	23
90 days	590	279
Total	2,441	3,281

Included in State Water's trade receivable balances are debtors with a carrying amount of \$0.634 million (2007: \$0.322 million) which are past due at the reporting date for which State Water has not provided as there has not been a significant change in their assessed conditions and the amounts are still considered recoverable.

The ageing analysis of past due total trade receivables is as follows:

30 days (not impaired)	39	20
30 days (impaired)	2	1
60 days (not impaired)	2	23
60 days (impaired)	1	-
90 days (not impaired)	236	77
90 days (impaired)	354	201
	634	322

Total interest received on impaired trade receivables was \$0.031 million (2007: \$0.019 million).

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

7 Property Plant and Equipment

	2008	2007
	\$'000	\$'000
Land - at recoverable amount		
Gross carrying amount	14,038	14,038
Total freehold land	14,038	14,038
Buildings - at fair value		
Gross carrying amount	3,626	2,897
Less accumulated depreciation	340	227
Total buildings	3,286	2,670
Plant and equipment - at fair value		
Gross carrying amount	5,590	4,613
Less accumulated depreciation	1,495	1,140
Total plant and equipment	4,095	3,473
Furniture, fixtures and fittings - at fair value		
Gross carrying amount	2,764	2,201
Less accumulated depreciation	1,214	784
Total furniture, fixtures and fittings	1,550	1,417
Motor vehicles - at fair value		
Gross carrying amount	8,410	8,015
Less accumulated depreciation	1,869	1,308
Total motor vehicles	6,541	6,707
Computers & systems - at fair value		
Gross carrying amount	2,748	366
Less accumulated depreciation	465	146
Total computers & systems	2,283	220
Marine craft - at fair value		
Gross carrying amount	165	158
Less accumulated depreciation	80	65
Total marine craft	85	93
Instruments - at fair value		
Gross carrying amount	633	618
Less accumulated depreciation	215	164
Total instruments	418	454
Water infrastructure - at recoverable amount		
Gross carrying amount	3,353,239	3,208,000
Less accumulated depreciation and accumulated impairment	3,001,215	2,860,018
Total water infrastructure	352,024	347,982
Work in progress - at fair value		
Gross carrying amount	16,625	16,235
Total work in progress	16,625	16,235
Total property, plant and equipment	400,945	393,289

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008 7 Property Plant and Equipment continued

(a) Movements in Carrying Amounts

	Water infrastructure	Plant & equipment - at fair value	Computers & systems - at fair value	Furniture & fitout - at fair value	Instruments - at fair value	Marine craft	Motor vehicles - at fair value	Work in progress - at fair value	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
30 June 2008									
Opening balance	14,038	2,671	347,983	3,475	220	1,417	454	92	6,706
Additions	-	707	8,372	961	1,929	481	36	8	2,660
Disposals	-	-	-	(2)	-	-	-	-	(1,659)
Depreciation	-	(97)	(4,330)	(453)	(215)	(448)	(61)	(16)	(1,381)
Reclassifications	-	4	(1)	114	349	100	(10)	1	212
Carrying amount at the end of year	14,038	3,285	352,024	4,095	2,283	1,550	419	85	6,540
30 June 2007									
Balance at the beginning of year	14,038	2,747	308,357	3,175	245	1,520	512	133	5,261
Additions	-	-	77	528	-	363	-	-	2,875
Disposals	-	-	-	(104)	-	-	(11)	(748)	(863)
Revaluation - A.R.R.	-	-	261,788	-	-	-	-	-	-
Depreciation expense	-	(76)	(3,586)	(469)	(83)	(466)	(58)	(30)	(895)
Impairments - A.R.R.	-	-	(123,374)	-	-	-	-	-	(5,663)
Depreciation - A.R.R.	-	-	(98,414)	-	-	-	-	-	(123,374)
Reclassifications	-	-	3,135	345	58	-	-	213	(98,414)
Carrying amount at the end of year	14,038	2,671	347,983	3,475	220	1,417	454	92	6,706
									400,944
									393,291

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

7 Property Plant and Equipment continued

(a) Movements in Carrying Amounts continued

(i) Subsequent additions have been at cost, less any subsequent accumulated depreciation, which closely approximates their fair market value less costs to sell (including additions from indexation).

An independent valuation undertaken by Department of Commerce of all State Water's system assets at MEERA values was performed as at 30 June 2006, using as its base a previous valuation exercise performed in 2001. This valuation was subsequently converted to Optimised Depreciated Replacement Cost (ODRC) by State Water.

During 2007 four major dams were valued at ODRC. The difference between the 2006 and 2007 valuations of the four dams chosen was extended to all State Water system assets as at 30 June 2007. As at 30 June 2008 general construction (non building) index of 7.8% was applied to the 2007 asset valuations along with additions for 2008.

In assessing impairment of these assets they were assessed against their recoverable value.

Due to the nature of bulk water industry assets, their recoverable amount is determined by the stream of income that can be derived from the use of the assets working together as a cash-generating integrated network, rather than the realisable values of the assets themselves. Accordingly, the cash-generating unit test referred to in the accounting policies calculates the recoverable amount using relevant estimated net cash flows discounted to their present value. In this regard, future cash flows for revenue and expenses are estimated over the average useful life of the assets, and are then discounted to their present value using a discount rate equivalent to State Water's weighted average cost of capital (WACC) calculated on a nominal pre-tax basis.

After considering ODRC and subsequent impairment to recoverable amount, there is no change in the carrying value of State Water system assets (2007: \$40 million).

Key assumptions used for value-in-use calculation

The key assumptions on which State Water has based its cash flow projections to undertake impairment testing of non-current assets are:

- Discount rate - the pre-tax WACCs used to discount future cash flows was 10.19% pa (2007: 10.42% pa).
- Future cash flows - these have been estimated for the next 82 years based on SCI values, standardised delivery and inflation.
- Inflation - this has been assumed to equal 3% (2007: 3% pa).
- Future cash flows have been estimated for the State Water's specialised assets in their current condition and consequently new capital expenditure and enhancements have been excluded from cash outflows. Cash outflows for operating expenditure and any capital expenditure that involves renewal or refurbishment of existing components that are regarded as necessary for the day-to-day servicing of the assets form part of the projections.
- Estimates of future revenues are based on prices determined in September 2006 by IPART, which are applicable up to 30 June 2010, and expected water usage consistent with the 2008-09 SCI (2007: 2007-08 SCI).
- Cash outflows - these are expected to be in line with State Water's SCI over the next four years and to increase in line with inflation thereafter.

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

8 Intangible Assets

	2008	2007
	\$'000	\$'000
Computer software		
Gross carrying amount		
Balance at start of period	2,088	2,088
Additions	879	-
Balance at end of period	<u>2,967</u>	2,088
Accumulated amortisation		
Balance at start of period	(1,044)	(696)
Amortisation	(348)	(348)
Balance at end of period	<u>(1,392)</u>	(1,044)
Net carrying value	<u>1,575</u>	1,044
Easements over property		
Balance at start of period	-	-
Additions	47	-
Net carrying amount	<u>47</u>	-
Total Intangibles	<u>1,622</u>	1,044

9 Other assets

CURRENT		
Prepayments	42	147
Other	1	10
Total current other assets	<u>43</u>	157
 NON-CURRENT		
Prepaid defined benefit superannuation scheme contribution (i)	<u>1,418</u>	4,804
Total non current other assets	<u>1,418</u>	4,804

(i) 2008 refers to SASS and SANCS only; for SSS refer Note 12: Provisions. For further explanation, refer to Note 26: Post employment benefits from superannuation plans.

2007: refers SSS, SASS and SANCS

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

10 Trade and other payables

	2008 \$'000	2007 \$'000
CURRENT		
Trade payables	1,716	1,165
Non-trade payables and accrued expenses:		
NSW Treasury	17,280	11,663
Other parties	11,009	9,863
	28,289	21,526
Total trade and other payables	30,005	22,691

11 Borrowings

CURRENT		
NON-CURRENT		
NSW Treasury Corporation - at amortised cost	39,055	39,197
Total non-current borrowings	39,055	39,197
Total borrowings	39,055	39,197

State Water has a matured long-term loan of \$5 million that is has converted to a short-term loan with a period of one month with current market rate of interest charged monthly in arrears. The loan is refinanced on similar terms at each maturity. State Water also has a matured long-term loan of \$6.967 million that it has converted to a short term loan with a period of 3 months with a current market rate of interest charged in arrears at the end of each loan period. The loan is refinanced on similar terms at each maturity. State Water has the ability to continue rolling over these two short-term loans at its discretion, and for this reason, together with State Water's intention not to settle these loans in the next 12 months, the loans are classified as non-current.

The balance of State Water's borrowings are long-term loans that are negotiated at a fixed rate of interest payable half-yearly in arrears, and with maturities no greater than 7 years.

Financing facilities:

State Water does not have a bank overdraft facility. State Water has an operating account with its corporate banker and regulates its balance through movements into and out of the deposits placed with the NSW Treasury Hour-Glass Cash facility.

State Water has a 'come and go' facility of \$7 million (2007: \$7 million) with NSW Treasury Corporation, which is available for use as and when required as part of State Water's daily cash management functions. This facility was not utilised at the reporting date (2007: not utilised).

State Water has Treasurer's approval for a credit card facility with its corporate banker of up to \$0.500 million (2007: \$0.500 million).

State Water has two short term loans that expire within 12 months. State Water has the ability to rollover these loans as required, and as the intention is not to settle these loans within 12 months, they have been disclosed as non-current loans.

In respect of longer term borrowing facilities, State Water cannot borrow in its own name. Instead, both new loans and the refinancing of maturing existing loans need to be arranged through the NSW Treasury Corporation, which raises borrowings on State Water's behalf.

State Water has no other financing facilities in place.

State Water Corporation has an approval from the Governor of the State of NSW to obtain financial accommodation

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

11 Borrowings continued

in accordance with the *Public Authorities (Financial Arrangements) Act 1987*. It also has the Treasurer's approval under Section 8 of that Act to hold borrowing facilities with a limit of \$80 million until 30 June 2010.

12 Provisions

(a) Carrying amounts

	2008 \$'000	2007 \$'000
Current		
Short-term provisions		
Employee benefits	3,077	3,091
Employee benefits on costs	561	631
Fringe benefits tax	(18)	78
Restructuring	3,018	-
	6,638	3,800
Current portion of long-term provisions		
Current portion of long term provisions - Employee benefits	8,597	7,685
Employee benefits on costs	899	1,691
	9,496	9,376
Total current provisions	16,134	13,176
Non-current		
Long-term provisions		
Employee benefits	38	157
Employee benefit on costs	141	35
Restoration of leased premises	233	150
Defined benefit superannuation scheme deficit (i)	2,248	-
Total non-current provisions	2,660	342

(i) 2008: refers SSS only. For SASS and SANCS refer Note: 9 Other Assets. For an explanation of this deficit refer to Note 26: Post employment benefits from superannuation plans.

(ii) In addition to the detail provided in Note 1(q) Provisions - Other long-term employee benefits, management judgement was applied in determining the following key assumptions used in the calculation of long service leave at balance date:

- future increases in wages and salaries;
- future on cost rates; and,
- experience of employee departures and period of service.

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

12 Provisions continued

(b) Reconciliation of movements in carrying amounts

Employee benefits are excluded from the scope of *AASB 137 Provisions, Contingent Liabilities and Contingent Assets* which require a reconciliation of movements in the carrying amounts of the provisions.

	2008 \$'000	2007 \$'000
Fringe benefits tax		
Current		
Carrying amounts at start of period	79	31
Payments made from provision	(493)	(307)
Provisions made during the period	396	355
Carrying amounts at end of period	(18)	79

This provision is used to recognise State Water's obligation in respect of fringe benefits tax for providing employees with fringe benefits that are covered by *The Fringe Benefits Tax Assessment Act 1986*. Estimates of fringe benefits are calculated based on the conditions of current legislation and the nature and frequency of fringe benefits provided to employees. Since the obligation is due to be settled less than 12 months after balance date, the provision is stated at the best estimate available and is not discounted.

Restoration of leased premises		
Non-current		
Carrying amounts at start of period	150	108
Provisions made during the period	83	42
Carrying amounts at end of period	233	150

This provision is used to recognise State Water's obligation in respect of restoration costs for leased premises, whereby State Water must restore the relevant premises back to their original state at the end of the lease term.

Restructuring and termination costs

Carrying amounts at start of period	-	-
Additional provisions	3,018	-
Payments made from provision	-	-
Reductions resulting from remeasurement or settlement without cost	-	-
Unwinding of discount and effect of changes in the discount rate	-	-
Total	3,018	-

State Water has implemented a plan to achieve efficiencies to reduce regulated water operating expenditure.

This plan involves a functional organisation restructure, technology improvements as well as a program of voluntary redundancies to achieve the required efficiencies.

The provision for restructuring and termination costs represents the present value of the directors' best estimate of the costs directly and necessarily caused by the restructuring that are not associated with the ongoing activities of State Water, primarily termination benefits.

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

12 Provisions continued

(b) Reconciliation of movements in carrying amounts continued

The provision was calculated by first identifying the groups of employees that would be affected by the restructure and to whom voluntary redundancy would be offered. A redundancy value was then calculated for each of these employees, and an average redundancy value was calculated for employees with over twenty years of service, and for those with under twenty years of service. Given the conditions of the redundancy package, and expected weighting of three to one (3:1) for employees with over 20 years service was applied to the anticipated number of employees expected to accept voluntary redundancy and then multiplied by the appropriate average redundancy value. The redundancies which are the subject of this provision have commenced and are expected to take place in the reporting period.

The restructuring process is planned to be completed by 30 June 2010. The benefits of net lower costs due to the restructuring commence in 2008-2009 and have full effect after 30 June 2010.

13 Other Liabilities

	2008	2007
	\$'000	\$'000
Current		
Income received in advance (i)	282	310
Lease inducement release (ii)	64	64
Deferred government grants (iii)	2,778	-
Total	3,124	374
 Non-current		
Lease inducement release	127	191
Total	127	191

(i) Income received in advance refers to amounts received for leases charged annually by State Water but whose period partly covers beyond the reporting date.

(ii) The inducements received in respect of the operating lease for State Water's Parramatta offices are recognised initially as a liability and then released to reduce rental expense on a straight-line basis over the term of the lease.

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

13 Other Liabilities continued

(iii) Deferred Government Grants

The deferred government grants values in the financial statements relate to the proportion of grant monies received in respect of which the expenditure to which they have been granted has not yet been expended.

Deferred government grants comprise:

	2008 \$'000	2007 \$'000
Government grants related to assets:		
National Water Commission (iv)	1,170	-
Lachlan Catchment Management Authority (iv)	1,252	-
	2,422	-
Government grants related to income:		
Department of the Environment & Climate Change (v)	356	-
	356	-
Total	2,778	-

(iv) State Water has signed a Funding Deed with the Commonwealth of Australia Government, as represented by and acting through the National Water Commission (NWC), and a Collaboration and Management Agreement with Lachlan Catchment Management Authority (LCMA) and a letter of understanding with Lachlan Valley Water, for State Water to undertake works known as Lake Brewster Water Efficiency Project. The parties, including State Water, have committed to make contributions both in kind and financially to the project costs. The parties have agreed to make financial contributions to the project at specified times or following the completion of designated milestones. The contribution in kind or by financial contribution by the other parties to the expected project cost of \$13 million is \$10.3 million. As at the reporting date \$4.913 million had been received from NWC and LCMA. The project is due to be completed by 31 August 2011.

(v) State Water has signed an agreement with the Department of the Environment & Climate Change (DECC) under the NSW Rivers Environmental Restoration Program and which is ultimately funded by the Commonwealth of Australia Government's Water Smart Australia program. Under the agreement and following the completion of designated milestones, DECC makes financial contributions to State Water in advance of State Water undertaking the next milestone activities. The expected project cost of \$10 million is fully funded under this agreement. As at the reporting date \$0.410 million had been received from DECC. The project is due to be completed by 30 June 2011.

14 Share capital

Two (2007: two) fully paid \$1.00 ordinary shares

Authorised capital is two \$1.00 ordinary shares.

There were no movements in share capital during the period.

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

15 Contributions by owners

	2008 \$'000	2007 \$'000
- - Net asset value transferred from DEUS to State Water effective 1 July 2004, as agreed to by NSW Treasury after converting \$60 million into a loan	249,073	249,073
- - Net asset value transferred from the Fish River Water Authority to State Water effective 1 January 2005, as agreed to by NSW Treasury	51,437	51,437
Balance at end of period	300,510	300,510

16 Dividends

(a) Current year dividend

The balance of the dividend payable for 2006 of \$6.137 million was paid on 21 February 2008.

An initial payment of a portion of the dividend for 2007 of \$1.250 million was made on 2 August 2007. Payment of the remaining dividend liability due (\$4.497million) for 2007 has been deferred until 30 June 2009, as approved by the Treasurer.

The dividend is calculated in accordance with the SCI and TPP02-03 *Financial Distribution Policy for Government Businesses*. The dividend payable is calculated based on profit before certain non-cash items:

Profit/(loss) before actuarial superannuation gains/losses	(15)	8,210
Dividend payable at 70% (2007: 70%*)	-	5,747

No dividend is recognised on ordinary shares for the reporting period (2007: \$2,873,500 per share).

Under the National Tax Equivalent Regime, State Water is not required to maintain a dividend franking account.

* The revised NSW Treasury-mandated application of the *Financial Distribution Policy for Government Businesses* (TPP02-3) excludes from profit available for distribution to shareholders any actuarial superannuation gain/loss net of income tax.

(b) Dividend payable

Current obligations to dividend

Dividend payable	4,497	11,884
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State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

17 Notes to the Cash Flow Statement

(a) Financing facilities

	2008	2007
	\$'000	\$'000
Unsecured bank credit card facility payable at call		
- amount used	107	203
- amount unused	393	297
	500	500
Unsecured loan facilities with various maturity dates through to 2014		
- amount used	39,055	39,197
- amount unused	40,945	40,803
	80,000	80,000

(b) Reconciliation of profit to net cash flows from operating activities

Profit for the year	(5,121)	12,948
Adjustments for:		
Income Statement items classified as investing or financing:		
Net (gain)/loss on disposal of property, plant and equipment	(153)	101
Depreciation and amortisation	7,349	6,011
Revaluation of borrowings	-	(421)
Government grants received for Lake Brewster assets	(2,421)	-
Net movement in Balance Sheet items applicable to operating activities:		
Reclassification of property, plant and equipment work in progress	-	527
Trade and other receivables	(195)	4,673
Other assets	3,501	(3,093)
Trade and other payables	7,312	1,674
Provisions	5,275	(1,670)
Other liabilities	2,686	536
Income tax assets and liabilities	(2,193)	1,113
Net cash flows from operating activities	16,040	22,399

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

18 Commitments for expenditure

(a) Capital expenditure commitments

	2008	2007
	\$'000	\$'000
Capital expenditure commitments contracted for:		
Not longer than one year	7,604	2,743
Longer than one year and not longer than five years	144	47
Longer than five years	-	-
	7,748	2,790

Amounts disclosed for these commitments include total GST of \$0.704 million (2007: \$0.254 million) that is recoverable from the ATO.

(b) Other expenditure commitments

Other expenditure commitments contracted for:		
Not longer than one year	2,153	1,319
Longer than one year and not longer than five years	1	-
Longer than five years	-	-
	2,154	1,319

Amounts disclosed for these commitments include total GST of \$0.196 million (2007: \$0.120 million) that is recoverable from the ATO.

(c) Operating lease commitments

Payable as lessee

Future operating lease rentals not provided for in the financial statements and payable:		
Not longer than one year	1,017	1,077
Longer than one year and not longer than five years	1,730	2,440
Longer than five years	-	-
	2,747	3,517

Representing:

Cancellable operating leases	-	-
Non-cancellable operating leases	2,747	3,517
	2,747	3,517

State Water leases primarily property and information technology equipment under non-cancellable operating leases.

Leases for property generally have terms of three to six years. All lease agreements are subject to an annual review in which the rental amount can be increased (usually by approximately 3%).

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

18 Commitments for expenditure continued

(c) Operating lease commitments continued

All leases allow for renewal at the end of the lease term.

Amounts disclosed for these commitments include total GST of \$0.250 million (2007: \$0.320 million) that is recoverable from the ATO.

Receivable as lessor	2008 \$'000	2007 \$'000
Future operating lease rentals not provided for in the Financial Statements and receivable:		
Not longer than one year	1,333	841
Longer than one year and not longer than five years	4,814	3,313
Longer than five years	30,290	16,917
	36,437	21,071

Representing:

Cancellable operating leases	-	-
Non-cancellable operating leases	36,437	21,071
	36,437	21,071

State Water leases to other parties positions to locate hydro-electric equipment and structures under non-cancellable operating leases. These leases are for terms ranging from 30 years to 75 years with option periods following, ranging up to 75 years. The longest remaining term before option is 68 years. Lease rentals are generally reviewed annually. The lessee does not have an option to purchase the property at the expiry of the lease period.

State Water leases to other parties foreshore land of some of its water storage facilities under non-cancellable operating leases for periods of five years, with two further option periods of 5 years each. Lease rentals are generally reviewed annually. The lessee does not have an option to purchase the property at the expiry of the lease period.

This foreshore land does not form part of the Transfer Order for the creation of State Water. However, State Water leases this land under an Instrument of Delegation signed by the Minister of Natural Resources dated 25 August 2006. This instrument delegates to State Water the land administration functions over the land and includes the capacity to negotiate and determine leases and licences over the land and collect and hold lease rental.

Amounts disclosed for these commitments include total GST of \$3.312 million (2007: \$1.916 million) that is payable to the ATO.

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

19 Maintenance expenditure

	2008 \$'000	2007 \$'000
Employee-related maintenance expenses	4,170	-
Contracted labour and other (non-employee related) expenses	8,656	-
Total	12,826	-

This represents the costs of maintenance functions carried out on State Water's system assets.

* The structure of information for 2007 does not enable comparative figures to be extracted.

20 Consultants

The total amount paid or payable to consultants engaged by State Water during the period was \$0.133 million (2007: \$0.117 million).

21 Contingent Liabilities and Contingent Assets

There are no contingent liabilities or contingent assets arising from this reporting period.

22 Directors

Names of persons holding the position of director in office at any time during the financial year are:

AG (Tony) Wright	Chairman and non-executive director	
George Warne	Executive director, Chief Executive Officer	Appointed 6/12/2007
Geoff Borneman	Executive director, Acting Chief Executive Officer	Resigned 5/12/2007
Kathleen Bowmer	Non-executive director	
Michael Bennett	Non-executive director	
Don Marples	Non-executive director	
Catherine Bolger	Non executive director	Appointed 1/8/2007
Kathryn Ridge	Non-executive director	Resigned 30/09/2007
Col Gellatly	Non executive director	Appointed 16/7/2007
Anne Thompson	Non executive director	Appointed 15/2/2008

Details of Directors remuneration are set out in Note 23(a).

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

23 Related party disclosures

State Water has related party relationships with key management personnel (refer (a) below), their related entities (refer (b) below), and other related parties (refer (e) below).

(a) Key Management Personnel

Key Management Personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of State Water, directly or indirectly. This comprises:

Directors, excluding Chief Executive Officer
Senior executives:
Chief Executive Officer
All Heads of Branches

Key Management Personnel compensation is as follows:

2008	Short-term benefits		Post employment benefits	Other long-term benefits	Total
	Salary \$'000	Termination benefits \$'000			
	2,375	198	377	-	2,950
	2,375	198	377	-	2,950

2007	Short-term benefits		Post employment benefits	Other long-term benefits	Total
	Salary \$'000	Termination benefits \$'000			
	1,607	100	379	35	2,121
	1,607	100	379	35	2,121

This comprises compensation relating to:

	2008 \$'000	2007 \$'000
Directors, excluding Chief Executive Officer	296	250
Senior executives	2,654	1,871
	2,950	2,121

(b) Other transactions with key management personnel and related entities

Key management personnel are free to engage in purchase of goods or services from State Water. Given the specialised nature of goods and services provided by State Water, these purchases are non-existent for the most part. These purchases are on the same terms and conditions as those entered into by other customers or clients.

Any transactions undertaken with entities related to key management personnel are conducted on an arm's length basis in the normal course of business and on commercial terms and conditions.

During the current reporting period, the following related party transactions with entities related to key management personnel occurred:

A director of State Water, Mr Michael Bennett, was a holder of water licences during the reporting period. Mr Bennett

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

23 Related party disclosures continued

(b) Other transactions with key management personnel and related entities continued

was also a director of Bennett Nominees Pty Limited as a trustee for Bennett Family Settlement No 1 which was a holder of water licences during the reporting period. State Water earned revenue totalling \$30,242 during the reporting period at rates determined by IPART for services rendered under the conditions of these water licences, which were issued by the Department of Water and Energy on an arm's length basis and on commercial terms and conditions in the ordinary course of business. As at 30 June 2008, Mr Bennett or Bennett Nominees Pty Limited has a current debt with State Water, for water usage in the 2006/2007 period of \$2,671, payment due date being 11 June 2008. No amounts were provided for during the year for any amounts previously invoiced to Mr Bennett and Bennett Nominees Pty Ltd.

Mr Bennett, representing riparian irrigators from regulated streams, is also a chairman of Macquarie-Cudgegong Customer Service Committee (CSC). This is one of a number of customer service committees established by State Water as a condition of its Operating Licence to exchange information with its customers and to develop a positive, constructive and efficient service provider-customer relationship. A CSC can make recommendations to State Water but is not a decision-making body.

(c) Other directorships

A director of State Water, Mr Michael Bennett, is also a director of The NSW Irrigators Council Ltd. The NSW Irrigators Council Ltd is a co-operative comprising of irrigators, that was formed with the intention of lobbying the relevant Governments and Government Agencies on irrigators behalf. The NSW Irrigators Council Ltd generates income through contributions from irrigators (which is not compulsory to pay). There have not been any transactions between State Water and The NSW Irrigators Council Limited during the reporting period.

A director of State Water, Mr Anthony Wright, is also a director (deputy chairman) of the NSW Environment Protection Authority (EPA). There have not been any transactions between State Water and NSW Environment Protection Authority during the reporting period.

(d) Other involvements

A director of State Water, Kathleen Bowmer, is employed as Professor of Water Policy at Charles Sturt University, Wagga Wagga. Her role includes both teaching and research.

A director of State Water, Kathleen Bowmer, acts as a freelance consultant to the water industry. Ms Bowmer has been engaged by Parsons Brickerhoff (PB) on an independent evaluation PB have been contracted to undertake by Lachlan Catchment Management Authority (LCMA) of the risks associated with LCMA's involvement in the Lake Brewster Water Efficiency Project. Ms Bowmer's involvement is reviewing scientific and environmental aspects. It is expected that income generated by Ms Bowmer from this involvement will be less than \$7,500. This work is paid for by LCMA, and is not part of the costs of the Lake Brewster Water Efficiency project managed by State Water.

(e) Transactions with other related parties

There were no material transactions with other related parties in either the current or previous reporting period.

24 Financial Instruments Disclosures

(a) Capital risk management

State Water manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt to equity balance.

State Water's overall strategy remains unchanged from 2007.

The capital structure of State Water consists of debt, which includes borrowings (refer Note: 11 Borrowings), cash and cash equivalents (refer Note: 5 cash and cash equivalents) and equity comprising issued capital, reserves and retained earnings (refer Notes: 1.1(i) and 15 and the Statement of Changes in Equity respectively).

Operating cash flows are used to maintain and expand State Water's assets, as well as to make the routine outflows

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

24 Financial Instruments Disclosures continued

(a) Capital risk management continued

of tax, dividends and repayment of maturing debt. State Water's policy is to borrow to meet anticipated funding requirements.

State Water's management reviews the capital structure on an annual basis with the preparation of the Statement of Corporate Intent. State Water has a target gearing ratio that is determined as the proportion of debt to debt plus equity. State Water will balance its overall capital structure primarily through the payment of dividends and the issue of new debt or the redemption of existing debt.

The gearing ratio at year end was as follows

	2008 \$'000	2007 \$'000
Debt (i)	39,055	39,197
Equity (ii)	332,574	338,326
Debt + equity	371,629	377,523

Debt to debt+equity ratio for 2008 financial year is 10.51% (2007: 10.38%)

Target debt to debt+equity ratio for 2008 financial year is 11.00% (2007: 11.40%)

(i) Debt is defined as long-term and short-term borrowings, as detailed in Note: 11.

(ii) Equity includes all capital and reserves.

(b) Categories of financial instruments

Financial assets

Cash and cash equivalents	11,371	16,502
Loans and receivables (Trade and other receivables)	28,131	27,936

Financial liabilities (at amortised cost)

Trade and other payables	30,002	22,691
Borrowings	39,055	39,197

(c) Financial risk management objectives

Key Management Personnel and the Board of Directors monitor and manage the financial risks relating to the operations of State Water through a range of internal reports that analyse exposures by degree and magnitude of risks. These risks include market risk, credit risk, liquidity risk and cash flow interest rate risk.

State Water does not use derivative financial instruments for any purpose. State Water does not enter into or trade financial instruments for speculative purposes.

(d) Market risk

State Water's activities expose it to the financial risks of changes in interest rates. It is not exposed to the financial risks of changes in foreign currency exchange rates or other price risks.

There has been no change to State Water's exposure to market risks or the manner in which it manages and measures the risk from the previous period.

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

24 Financial Instruments Disclosures continued

(e) Interest rate risk management

State Water is exposed to changes in market interest rates. Although there is a small exposure arising from cash and investment portfolios, the main exposure arises primarily from State Water's debt portfolio.

State Water manages this interest rate risk by managing the modified duration rate of its debt portfolio in conjunction with NSW Treasury Corporation.

State Water's exposure to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

A sensitivity analysis on the exposure to interest rates for State Water's borrowings was undertaken based on interest rate movements provided by NSW Treasury Corporation, with the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. The sensitivity percentages were derived from historically based volatility information calculated over a ten year period, quoted at two standard deviations (i.e. 95% probability).

At reporting date, the impact on State Water's profit/loss for the changes in interest rates shown is:

	Rate change	2008 \$'000	2007 \$'000
Cash and cash equivalents (interest-bearing deposits)	+/- 100 basis points	93	165
Borrowings (call loans)	+/- 100 basis points	120	50

(f) Credit risk management

Credit risk refers to the risk that indebted counterparties will default on their contractual obligations, resulting in financial loss to State Water. Exposures to credit risk exist in respect of financial assets such as trade and other receivables, cash and cash equivalents and investments in marketable securities.

In respect of trade and other receivables, State Water monitors balances outstanding on an ongoing basis and has policies in place for the recovery or write-off of amounts outstanding.

In relation to receivables for water charges, the credit risk is mitigated by the conditions under which water licences are held by customers, the result of which is that before a sale or transfer of licence takes place the market, as represented by the buyer or transferee, ensures the settlement of all amounts owing. For further detail refer to note 6 : Trade and other receivables

In respect of cash and cash equivalents and investments in marketable securities, State Water only deals with creditworthy counterparties and recognised financial intermediaries as a means of mitigating against the risk of financial losses from defaults.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, net of any allowances for losses, in the Balance Sheet.

At the reporting date there were no significant concentrations of credit risk in which State Water is significantly exposed to any single counterparty.

There was no change to the level of credit exposure to State Water during the current reporting period

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

24 Financial Instruments Disclosures continued

(g) Liquidity risk management

Liquidity risk refers to the risk that State Water will be unable to meet expenditure commitments when they fall due. State Water has built an appropriate liquidity risk management framework for the management of State Water's short, medium and long-term funding and liquidity management requirements. Liquidity risk is managed through the availability of financing facilities including a long-term fixed borrowing facility with NSW Treasury Corporation, and through the maintenance of extensive short-term and long-term cash flow forecasting, which is regularly monitored by the Board. Disclosed in Note: 11 Borrowings are details of State Water's financing facilities, including undrawn facilities that State Water has at its disposal to further reduce liquidity risk.

Liquidity and interest risk tables

The following tables detail State Water's expected maturity for its financial assets and its remaining contractual maturity for its financial liabilities. The tables are based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets, and the undiscounted interest and principal cash flows of financial liabilities according to the earliest date on which State Water can be required to pay.

Financial instrument composition and maturity analysis

The company's exposure to interest rate risk, which is the risk that a financial instruments value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

	Weighted Average Effective Interest Rate		Maturing within 1 Year		Maturing 1 to 5 Years		Maturing Over 5 Years	
	2008	2007	2008	2007	2008	2007	2008	2007
	%	%	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial Assets:								
Non-interest bearing	-	-	27,590	27,238	-	-	-	-
Variable interest rate instruments	6.60	6.15	9,330	16,487	-	-	-	-
Fixed interest rate instruments	10.00	9.50	522	713	-	-	-	-
Total Financial Assets			37,442	44,438	-	-	-	-
Financial Liabilities:								
Non-interest bearing	-	-	29,702	22,691	-	-	-	-
Variable interest rate instruments	7.42	6.34	12,138	5,026	-	-	-	-
Fixed interest rate instruments	6.06	6.33	1,545	9,070	17,460	18,180	16,238	17,063
Total Financial Liabilities			43,385	36,787	17,460	18,180	16,238	17,063

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

24 Financial Instruments Disclosures continued

(h) Fair values of financial assets and financial liabilities

Fair values of financial assets and financial liabilities are determined as follows:

- Cash and cash equivalents
The carrying amount is considered to be a reasonable approximation of the fair value.
- Trade and other receivables
The carrying amount is considered to be a reasonable approximation of the fair value.
- Trade and other payables
The carrying amount is considered to be a reasonable approximation of the fair value.
- Other financial liabilities
The carrying amount is considered to be a reasonable approximation of the fair value.

Assumptions used in determining fair value of financial assets and liabilities

- Borrowings
The fair value of Borrowings is estimated using valuation techniques which discount cash flows to present value based on observable market yields for the same or equivalent securities.

	2008	2007
	\$'000	\$'000
Borrowings		
Carrying value at amortised cost	39,055	39,197
Fair value	37,724	38,203

These market yields are derived from, or equal to, the quoted yields for debt securities issued by Treasury Corporation and are:

Nominal	Coupon	Average quoted market rates at 30 June 2008	Average quoted market rates at 30 June 2007
		% p.a.	% p.a.
Overnight	-	7.250	6.250
90 days	-	7.500	6.335
180 days	-	7.670	6.361
1 March 2008	8.0	-	6.390
1 October 2009	6.0	7.470	6.690
1 December 2010	7.0	7.350	6.730
1 May 2012	6.0	7.250	6.750
1 August 2014	5.5	7.090	6.695

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

25 Auditors Remuneration

	2008	2007
	\$'000	\$'000
Remuneration to State Water's auditor for:		
Auditing or reviewing the financial report	<u>175</u>	188
	<u>175</u>	188

26 Post employment benefits from superannuation plans

All employees are entitled to benefits on retirement, disability or death from superannuation plans administered on behalf of State Water Corporation by Pillar administration. State Water contributes to defined contribution superannuation plans and to defined benefit superannuation plans.

Defined contribution superannuation plans

Contributions are made in accordance with the Superannuation Guarantee Contribution legislation and employee agreements, and are based on a specific portion of the employee's ordinary time earnings. Contributions are expensed at the time of payment and are included in Employee benefits in the Income Statement. There is no asset or liability recognised in the Balance Sheet in relation to the defined contribution superannuation plans.

Defined benefit superannuation plans

State Water contributes to three defined benefit superannuation plans in the NSW public sector Pooled Fund, which holds in trust the investments of these plans. The plans are:

- State Superannuation Scheme (SSS)
- State Authorities Superannuation Scheme (SASS)
- State Authorities Non-Contributory Superannuation Scheme (SANCS)

Employer contributions are based on various multiples of employee contributions and percentages of employee superable salaries, in accordance with the advice of the plans' actuaries. Funding recommendations are made by the actuaries based on their forecast of various matters, including future asset performance, interest rates, and salary increases. The plans provide defined benefits to qualifying employees, derived in part from a multiple of member salary and years of membership.

All the schemes are closed to new members.

An assessment of the defined benefit plans is made each year by Pillar Administration, the funds' administrator. If a surplus exists in State Water's interest in a fund, State Water may be able to take advantage of it in the form of a reduction in the required contribution rate, depending on the advice of the fund's actuary. Where a deficiency exists, State Water is responsible for any difference between its share of fund assets and the defined benefit obligation. Actuarial gains and losses are recognised in profit or loss in the year they occur.

The assessment of the funds under existing accounting standards at 30 June 2008 showed the total of all funds to be \$0.830 million net deficit (2007: \$4.805 million in surplus). This liability is disclosed in the Balance Sheet.

Payments made to Pillar Administration towards superannuation liabilities are held in Investment Reserve Accounts. All fund assets are invested by Superannuation Trustee Corporation at arm's length through independent fund managers.

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

26 Post employment benefits from superannuation plans continued

Fund assets

The percentages invested in each asset class at the balance sheet date are:

	30 June 2008	30 June 2007
Australian equities	31.6 %	33.6 %
Overseas equities	25.4 %	26.5 %
Australian fixed interest securities	7.4 %	6.8 %
Overseas fixed interest securities	7.5 %	6.4 %
Property	11.0 %	10.1 %
Cash	6.1 %	9.8 %
Other	11.0 %	6.8 %

Reconciliation of the present value of the defined benefit obligation

For the financial year to 30 June 2008

	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
Present value of partly funded defined benefit obligations at start of year	15,105	3,296	33,295	51,696
Current service cost	461	179	396	1,036
Interest cost	943	201	2,105	3,249
Contributions by fund participants	267	-	523	790
Actuarial (gains)/losses	(794)	2	1,542	750
Benefits paid	(646)	(40)	(1,897)	(2,583)
Past service cost	-	-	-	-
Curtailments	-	-	-	-
Settlements	-	-	-	-
Business combinations	-	-	-	-
Exchange rate changes	-	-	-	-
Present value of partly funded defined benefit obligations at end of year	<u>15,336</u>	<u>3,638</u>	<u>35,964</u>	<u>54,938</u>

For the financial year to 30 June 2007

	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
Present value of partly funded defined benefit obligations at start of year	14,200	3,303	31,804	49,307
Current service cost	484	191	418	1,093
Interest cost	825	187	1,878	2,890
Contributions by fund participants	269	-	528	797
Actuarial (gains)/losses	349	8	(1,662)	(1,305)
Benefits paid	(1,022)	(393)	329	(1,086)
Past service cost	-	-	-	-
Curtailments	-	-	-	-
Settlements	-	-	-	-
Business combinations	-	-	-	-
Exchange rate changes	-	-	-	-

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

26 Post employment benefits from superannuation plans continued

For the financial year to 30 June 2007 continued

	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
Present value of partly funded defined benefit obligations at end of year	15,105	3,296	33,295	51,696

Reconciliation of the fair value of fund assets

For the financial year to 30 June 2008

	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
Fair value of fund assets at start of year	17,228	4,118	35,155	56,501
Expected return on fund assets	1,321	321	2,722	4,364
Actuarial (gains)/losses	(2,301)	(602)	(3,642)	(6,545)
Employer contributions	537	189	855	1,581
Contributions by fund participants	267	-	523	790
Benefits paid	(646)	(40)	(1,897)	(2,583)
Settlements	-	-	-	-
Business combinations	-	-	-	-
Exchange rate changes	-	-	-	-
<i>Fair value of fund assets at end of year</i>	<i>16,406</i>	<i>3,986</i>	<i>33,716</i>	<i>54,108</i>

For the financial year to 30 June 2007

	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
Fair value of fund assets at start of year	15,435	3,789	28,673	47,897
Expected return on fund assets	1,174	284	2,206	3,664
Actuarial (gains)/losses	900	253	2,548	3,701
Employer contributions	472	185	871	1,528
Contributions by participants	269	-	528	797
Benefits paid	(1,022)	(393)	329	(1,086)
Settlements	-	-	-	-
Business combinations	-	-	-	-
Exchange rate changes	-	-	-	-
<i>Fair value of fund assets at end of year</i>	<i>17,228</i>	<i>4,118</i>	<i>35,155</i>	<i>56,501</i>

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

26 Post employment benefits from superannuation plans continued

(a) Reconciliation of the assets and liabilities recognised in the balance sheet

At 30 June 2008

	SASS \$'000	SANCS \$'000	SSS \$'000
Present value of partly funded benefit obligations at end of year	15,336	3,638	35,964
Fair value of fund assets at end of year	(16,406)	(3,986)	(33,716)
	(1,070)	(348)	2,248
Unrecognised past service cost	-	-	-
Unrecognised gain/(loss)	-	-	-
Adjustment for limitation on net asset	-	-	-
Net liability/(asset) recognised in balance sheet at end of year	(1,070)	(348)	2,248

	Total \$'000
Present value of partly funded benefit obligations at end of year	54,938
Fair value of fund assets at end of year	(54,108)
	830
Unrecognised past service cost	-
Unrecognised gain/(loss)	-
Adjustment for limitation on net asset	-
Net liability/(asset) recognised in balance sheet at end of year	830

At 30 June 2007

	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
Present value of partly funded defined benefit obligations at end of year	15,105	3,296	33,295	51,696
Fair value of fund assets at end of year	(17,228)	(4,118)	(35,155)	(56,501)
	(2,123)	(822)	(1,860)	(4,805)
Unrecognised past service cost	-	-	-	-
Unrecognised gain/(loss)	-	-	-	-
Adjustment for limitation on net asset	-	-	-	-
Net liability/(asset) recognised in balance sheet at end of year	(2,123)	(822)	(1,860)	(4,805)

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

26 Post employment benefits from superannuation plans continued Total expense recognised in income statement

For the financial year to 30 June 2008

	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
Current service cost	461	179	396	1,036
Interest on obligation	943	201	2,105	3,249
Expected return on fund assets (net of expenses)	(1,321)	(321)	(2,722)	(4,364)
Net actuarial losses/(gains) recognised in year	1,507	604	5,184	7,295
Past service costs	-	-	-	-
Movement in adjustment for limitation on net asset	-	-	-	-
Curtailment or settlement loss (gain)	-	-	-	-
Total included in INCOME STATEMENT	1,590	663	4,963	7,216

For the financial year to 30 June 2007

	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
Current service cost	484	191	418	1,093
Interest on obligation	825	187	1,878	2,890
Expected return on fund assets (net of expenses)	(1,174)	(284)	(2,206)	(3,664)
Net actuarial losses (gains) recognised in year	(551)	(245)	(4,210)	(5,006)
Past service costs	-	-	-	-
Movement in adjustment for limitation on net asset	-	-	-	-
Curtailment or settlement loss (gain)	-	-	-	-
Total included INCOME STATEMENT	(416)	(151)	(4,120)	(4,687)

Expected rate of return on assets

The expected return on assets assumption is determined by weighing the expected long-term return for each asset class by the target allocation of assets to each class. The returns used for each class are net of tax and investment fees.

Actual return on plan assets

	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
2008	(1,137)	(281)	(2,275)	(3,693)
2007	2,251	537	4,299	7,087

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

26 Post employment benefits from superannuation plans continued

Valuation method

The Projected Unit Credit (PUC) valuation method was used to determine the present value of the defined benefit obligations and the related current service cost. The method sees each period of service giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Economic assumptions

	2008	2007
Discount rate	6.55% p.a.	6.4% p.a
Expected rate of return on assets backing current pension liabilities	8.3% p.a	7.6% p.a
Expected rate of return on assets backing other liabilities	7.3% p.a	7.6% p.a
Salary increase rate (excluding promotional increases)	3.5% p.a	4.0% p.a to 2008; 3.5% p.a thereafter
Rate of CPI increase	2.5% p.a	2.5% p.a

Demographic assumptions

The demographic assumptions at 30 June 2008 are those being used for the 2006 triennial actuarial valuation. A selection of the most financially significant assumptions is shown below;

(i) SASS contributors - the number of SASS contributors expect in any one year (out of 10,000 members), at any ages shown, to leave the fund as a result of death, disability, resignation, retirement and preservation. Promotional salary increase rates are also shown.

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

26 Post employment benefits from superannuation plans continued

2008 and 2007

Age nearest birthday	Death	Total and permanent disability	Retirement	Resignation	Redundancy	Additional promotional salary increase rate %
Males						
30	4	8	0	280	150	2.90
40	6	10	0	150	150	1.80
50	11	30	0	112	150	0.00
60	30	0	1400	0	150	0.00
Females						
30	2	2	0	372	150	2.90
40	3	6	0	175	150	1.80
50	7	28	0	144	150	0.00
60	18	0	1500	0	150	0.00

(ii) SSS contributors - the number of SSS contributors expected to leave in any one year (out of 10,000 members), at the ages shown, to leave the fund as a result of death, disability, resignation, retirement and preservation. Promotional salary increase rates are also shown.

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

26 Post employment benefits from superannuation plans continued

2008 and 2007

Age nearest birthday	Death	III health retirement	Retirement (R60 for females)	Cash resignation (R60 for females)	Redundancy (R60 for females)	Additional promotional salary increase rate %
Males						
30	4	42	0	178	95	
40	6	54	0	80	140	
50	11	144	0	20	50	
60	30	0	6500	0	0	
Females						
30	2	6	0	204	124	
40	3	21	0	72	105	
50	7	103	0	30	90	
60	18	0	6300	0	0	

SSS commutation - the proportion of SSS members assumed to commute their pension to a lump sum in any one year.

2008 and 2007

Age	Retirement	Breakdown
Later of commencement or age 55	Retirement .15	Breakdown .20
55	Widow .2500	Widower .2500
65		
75		
85		
	.5380	.5800
	.4825	.5160
	.3928	.3728

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

26 Post employment benefits from superannuation plans continued

SSS pensioner mortality - assumed mortality rates (in 2006-2007) for SSS pensioners (separately for normal retirement/spouses and invalidity).

2008 and 2007

Age	Retirement pensioners and spouses and widows		Invalidity pensioners	
	Males	Females	Males	Females
55	0.0025	0.0014	0.0081	0.0066
65	0.0070	0.0055	0.0112	0.0125
75	0.0194	0.0157	0.0505	0.0314
85	0.0945	0.0634	0.1134	0.1268

(v) SSS pensioner mortality improvements - per annum assumed rates of mortality improvement for SSS pensioners.

2008 and 2007

Age	Improvements rates	
	Males	Females
55	0.0152	0.0113
65	0.0101	0.0065
75	0.0087	0.0068
85	0.0052	0.0080

Historical information

For the financial year to 30 June 2008

	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
Present value of defined benefit obligation	15,336	3,638	35,964	54,938
Fair value of Fund assets	(16,406)	(3,986)	(33,716)	(54,108)
(Surplus)/Deficit in fund	(1,070)	(348)	2,248	830
Experience adjustments - fund liabilities	(794)	2	1,542	750
Experience adjustments - Fund assets	2,301	602	3,642	6,545

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

26 Post employment benefits from superannuation plans continued For the financial year to 30 June 2007

	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
Present value of defined benefit obligation	15,105	3,296	33,295	51,696
Fair value of Fund assets	(17,228)	(4,118)	(35,155)	(56,501)
(Surplus)/Deficit in Fund	(2,123)	(822)	(1,860)	(4,805)
Experience adjustments - Fund liabilities	349	8	(1,662)	(1,305)
Experience adjustments - Fund assets	(900)	(253)	(2,548)	(3,701)

For the financial year to 30 June 2006

	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
Present value of defined benefit obligation	14,200	3,303	31,804	49,307
Fair value of Fund assets	(15,435)	(3,789)	(28,672)	(47,896)
(Surplus)/Deficit in Fund	(1,235)	(486)	3,132	1,411
Experience adjustments - Fund liabilities	669	44	(418)	295
Experience adjustments - Fund assets	(1,627)	(287)	(3,105)	(5,019)

For the financial year to 30 June 2005

	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
Present value of defined benefit obligation	12,057	2,998	30,240	45,295
Fair value of Fund assets	(11,817)	(3,347)	(22,943)	(38,107)
(Surplus)/Deficit in Fund	240	(349)	7,297	7,188
Experience adjustments - Fund liabilities	-	-	-	-
Experience adjustments - Fund assets	-	-	-	-

Expected employer contributions

	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
2008	501	177	648	1,326
2007	471	177	676	1,324

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

26 Post employment benefits from superannuation plans continued Funding arrangements for employer contributions

The following is a summary of the financial position of the Funds calculated in accordance with AAS 25 - *Financial Reporting by Superannuation Plans*.

(a) Surplus/deficit

	SASS \$'000	SANCS \$'000	SSS \$'000
At 30 June 2008			
Accrued benefits	15,287	3,653	33,527
Net market value of Fund assets	(16,406)	(3,986)	(33,716)
Net (surplus)/deficit	(1,119)	(333)	(189)
	SASS \$'000	SANCS \$'000	SSS \$'000
	\$	\$	\$
At 30 June 2007			
Accrued benefits	14,895	3,264	30,317
Net market value of Fund assets	(17,228)	(4,117)	(35,155)
Net (surplus)/deficit	(2,333)	(853)	(4,838)

(b) Contribution recommendations

Recommended contribution rates for the entity are:

	SASS	SANCS	SSS
	A	B	C
2008	1.90	2.50	1.60
2007	1.90	2.50	1.60

A - multiple of member contributions

B - percentage member salary

C - multiple of member contributions

(c) Funding method

The method used to determine the employer contribution recommendations at the last actuarial review was the *Aggregate Funding* method. The method adopted affects the timing of the cost to the employer.

Under the *Aggregate Funding* method, the employer contribution rate is determined so that sufficient assets will be available to meet benefit payments to existing members, taking into account the current value of assets and future contributions.

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

26 Post employment benefits from superannuation plans continued

(d) Economic assumptions

The economic assumptions adopted for the last actuarial review of the Fund were:

Weighted-Average Assumptions	2008	2007
Expected rate of return on Fund assets backing current pension liabilities	7.7% pa	7.7% pa
Expected rate of return on Fund assets backing other liabilities	7.0%	7.0%
Expected salary increase rate	4.0%	4.0%
Expected rate of CPI increase	2.5%	2.5%

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

27 Administered Revenue and Assets (i)

	2008 \$'000	2007 \$'000
Administered revenues		
DWE - Water Charges	21,291	17,575
NSW Treasury - Pindari Levy	1,805	2,020
YCATAC - Yanco Columbo System Levy	164	136
	23,260	19,731
Administered Assets		
Administered cash	4,238	2,411
Debtors and accrued charges DWE	40,244	34,304
Debtors and accrued charges Pindari	272	1,544
Debtors and accrued charges YCATAC	174	50
	44,928	38,309
Administered Liabilities		
Creditors and accruals DWE	40,913	36,124
Creditors and accruals Pindari	3,834	2,043
Creditors and accruals YCATAC	181	142
	44,928	38,309

(i) The amounts shown above have not been recognised in the Income Statement and the Balance Sheet, as they arise from agency arrangements with the Department of Water and Energy (DWE), NSW Treasury and Yanco Creek and Tributaries Advisory Council (YCATAAC).

Under these arrangements State Water is responsible for billing water licence holders on behalf of:

- DWE for unregulated river and groundwater charges as well as regulated river charges which are shared between State Water and DWE.
- NSW Treasury for the Pindari Dam Levy.
- YCATAC for a levy on irrigators in the Yanco Columbo System.

These charges are payable by State Water to the respective agencies as and when collected.

Accrued charges are based on known entitlement charges and on usage, where applicable.

Billing of customers is completed after year end.

State Water Corporation

Notes to the Financial Statements

For the Year Ended 30 June 2008

28 Events after balance sheet date

At the time of preparing the financial statements there was considerable volatility evident in global financial markets, which may affect State Water's obligations in respect of defined benefit superannuation schemes. Should there be a sustained fall in the value of the stock market, this will adversely affect State Water's obligations in respect of these schemes. The degree of any adverse effect is not able to be estimated at this time.

There are no other known events that would impact on state of affairs of the economic entity or have a material effect on these financial statements.

The financial report was authorised for issue on 20 October 2008 by the Board of Directors.

29 Corporation details

State Water Corporation

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30 Other matters

Water for the Future

The Commonwealth of Australia Government announced during the 2007/2008 financial year a new water management plan, known as "Water for the Future" (previously "National Plan for Water"). Action from this plan has commenced, in the form of significant buy-backs of water licences (and in some cases farming lands) to increase river flows for environmental and sustainability purposes. Further purchases are planned for future years. State Water's customer base is altering as existing water licence holders sell their licences to the Department of Environment and Climate Change. There will be no impact on revenue as State and Federal agencies have committed to paying fixed entitlement charges and variable delivery costs.



Orange orchard Sleepy Hollow in the Macquarie-Cudgegong valley.

Glossary

AWD	Available Water Determination	JCC	Joint Consultative Committee
CAIRO	Computer Aided Improvements to River Operations	KPI	Key Performance Indicator
CCC	Community Consultative Committee	LTIFR	Lost-time to Injury Frequency Rate
CEO	Chief Executive Officer	MDBC	Murray Darling Basin Commission
CFD	Computational Fluid Dynamics	ML	Megalitre (1,000,000 litres)
CMA	Catchment Management Authority	MoU	Memorandum of Understanding
CPI	Consumer Price Index	MPM	Major Periodic Maintenance
CRC	Cooperative Research Centre	MW	Megawatts
CRP	Community Reference Panel	MWh	Megawatt hours
CSC	Customer Service Committee	NWI	National Water Initiative
CSI	Customer Satisfaction Index	OHS	Occupational Health and Safety
CWP	Cold Water Pollution	RAB	Regulatory Asset Base
CWPIAG	Cold Water Pollution Inter-Agency Group	SCADA	Supervisory Control and Data System
DA	Development Application	SCI	Statement of Corporate Intent
DECC	Department of Environment, Conservation and Climate Change	SCSC	Staff Consultative Steering Committee
DEWHA	Department of the Environment, Water, Heritage	SEE	Statement of Environmental Effects
		SES	NSW Senior Executive Service
		SFE	Sydney Futures Exchange
DoC	Department of Commerce	SOC	State Owned Corporations
DoL	Department of Lands	SWMOP	State Water Management Outcomes Plan
DPI	Department of Primary Industries	TIG	Technical Information Group
DSC	NSW Dams Safety Committee	WIX	Water Information Exchange
DSEP	Dams Safety Emergency Plan	WSP	Water Sharing Plan
DWE	Department of Water and Energy		
EAPS	Ethnic Affairs Priority Statement		
ECA	Environmental Contingency Allowance		
EEO	Equal Employment Opportunity		
EFT	Effective Full Time		
EIS	Environmental Impact Statement		
EMP	Environment Management Plan		
EPR	Employee planning and review		
EWON	Energy and Water Ombudsman of NSW		
FMMS	Facilities Maintenance Management System		
FRWS	Fish River Water Supply		
GL	Gigalitre (100 million litres)		
GW	Gigawatts		
GWh	Gigawatt		
HR	Human Resources		
IFMS	Integrated Financial Management System		
IPART	Independent Pricing and Regulatory Tribunal		
iWAS	Internet Water Accounting System		

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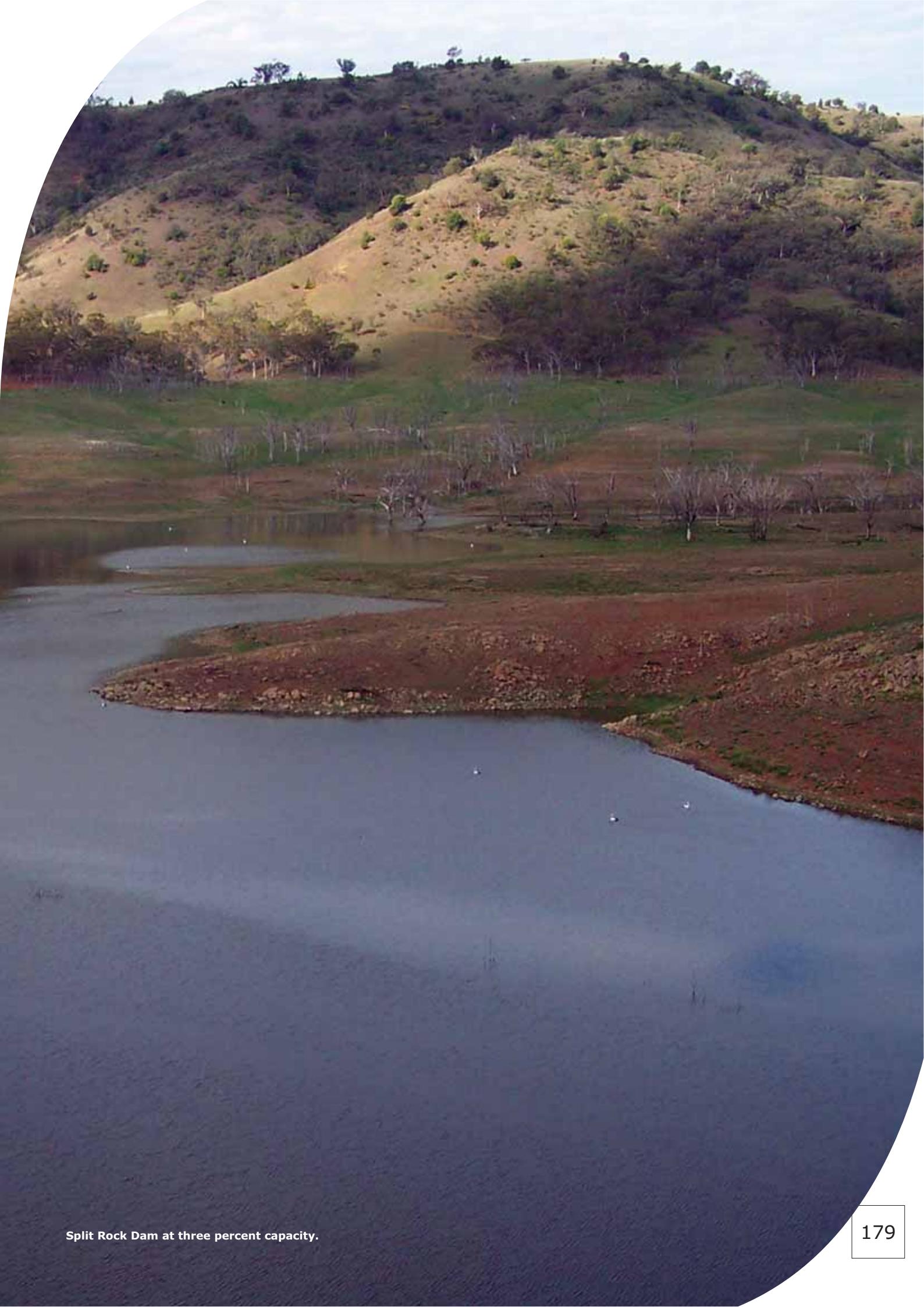
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Split Rock Dam at three percent capacity.

